ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 166 Number 4640 New York, N. Y., Thursday, October 23, 1947 Price 30 Cents a Copy

Anti-Discrimination Bill Objectionable

By DONALD R. RICHBERG*

Attorney and former NRA chief asserts that Senate Bill violates essential freedoms, such as right to choose one's associates, right to freely exercise a religion, and individual discretionary actions in business and social relations.

It seems to be commonly assumed by opponents as well as by proponents of Senate Bill 984 that no fair-minded person will oppose the objectives of this bill. So, I venture to point out that the dominant objective of the bill is to prohibit and to prevent by governmental action any freedom to choose one's associates or co-workers in business, if that choice is based on considerations of race, religion, color, national origin or ancestry, yet freedom to choose one's associates because of personal liking and confidence, or individual judg-

Donald R. Richberg

(Continued on page 39)

*From a commentary on S. 984 submitted by Mr. Richberg to the Senate Committee on Labor and Public Welfare, Oct. 10, 1947. Mr. Richberg is a partner of the law firm of Davies, Richberg, Beebe, Busick & Richardson, Washington, D. C.

Britain's Recovery Program

By LORD INVERCHAPEL*
British Ambassador to the United States

Denying that Britain is not doing enough to bring about recovery, Lord Inverchapel points out efforts and accomplishments in meeting present crisis. Cites increased agricultural production, larger coal production in 1947 despite handicaps, and expanding textile, steel and electricity output. Scorns accusation Great Britain is on brink of communism. Expresses optimism regarding nation's future.

World events crowd in upon each other with such bewildering speed and variety that it is often hard to know exactly whither we are going, but about one thing we may be sure that we are right when we tell ourselves, as we often do, that we stand at the cross roads of the history of the world.

Lord Inverchapel

For the past two years we in Europe have been trying to rebuild our countries in a form fit to face the onslaught of a changed world. Each one, probably mistakenly, with its eye on its own precious sovereignty. For a while it looked as though a measure of success had been achieved, although the Continent was grievously divided politically, and Germany, which has been the industrial center of it, was prevented not only by circumstances, but by allied policy also, from even beginning to assume her former economic role.

But this measure of success proved to be a shallow thing. It was brought about, on the Continent in particular, to a large ex-

(Continued on page 33)

*An address by Lord Inverchapel at the Luncheon Session of the 34th National Foreign Trade Convention, St. Louis, Mo., Oct. 20, 1947.

Inflationary Spirals and the Paris Report

By MELCHIOR PALYI, Ph.D.

Asserting Washington is anxious to put the blame for rising prices on anything or anyone but our scheme of international finance, Dr. Palyi contends root of problem lies in inflationary monetary policies. Holds Paris Report on Marshall Plan is bound to break down because of rising U. S. prices, and will be merely a relief rather than reconstruction program.

(1) Inflation feeds on its own momentum. It generates forces which increase the strain on the nation's resources. Steel is short, as an example, and the industry is very positive that with the $1,000,000,000 of technological improvement and plant expansion now decided, the steel shortage should be overcome two years hence (provided there will be no coal, freight car or manpower bottleneck). What is not mentioned is that, in the meantime, this huge amount of dollars spent will draw its equivalent of manpower and materials out of current production, thus pouring fuel on the fire of rising costs and mounting prices. And will the steel price go down then? Only a few months ago, the same people in the steel industry were 100% sure that the present capacity would be large enough to

Dr. Melchior Palyi

(Continued on page 30)

EDITORIAL

As We See It

Why the Reluctance?

If one were naive enough to accept at face value all that appears in the press and all that is heard on the radio, no doubt could remain in his mind that this country must make extensive sacrifices in order to feed a starving Europe (and perhaps, Asia) during the next year at all events. If judgment were based wholly upon what some high political pundits say, the people of the United States, moreover, are well aware of the fact and quite ready to accept the sacrifices involved to reach the agreed goals. Many who aspire to interpret and to lead public opinion would give the impression that the state of mind in the United States is not greatly different from that existing when far greater sacrifices were required for the winning of the war.

Yet the man in the street, if he is at all observant or even if he searches his own mind candidly, knows full well that this picture of the present mind of the public in this country is essentially false in many important respects. The reluctance of political leaders to reinstate rationing and price control, not to say their obvious determination to avoid any such thing, is evidence of a convincing nature. The dubious success—if success it can be termed — of the so-called voluntary

(Continued on page 36)

Inflation and Common Stocks

By HAROLD C. YEAGER
Yeager and Anderson, Inc.

Mr. Yeager calls attention to lag in prices of common stocks compared with increase in corporate profits and other developments affecting security price trends. Contends common stocks appear to be cheap, and there is not likely to be lower prices, because current trend is inflationary. Says inflation affects various groups of stocks differently.

In comparison with the inflation which has occurred in our economy since 1939, the advance in common stocks is certainly of modest proportions. As shown in the accompanying table, our monetary supply, consisting of bank deposits and cash, is two and one-half times pre-war. Government obligations in the hands of individuals (readily convertible into cash) increased over five-fold, the price of commodities and labor about doubled. Despite a sharp increase in profits and a very considerable increase in dividends, the price of our leading industrial stocks is up only 18%. Hence it is pertinent to ask whether there are basic reasons of a persistent nature which would explain this paradox or whether the slowness of equities to respond is due to non-basic and transitory forces. There is much evidence to support the latter conclusion.


H. C. Yeager

Although the recent figure for "total deposits and currency" of 165.1 billion is astronomically high and represents a greater monetary expansion by far than this country has ever witnessed, it was actually $10 billions higher at the close of the war. The policy of debt reduction carried out by the Treasury shrunk bank deposits by this sum during 1946 and 1947 to date at a time when the Governmental deficit of above $50 billions was reduced and an actual surplus shown. The combination of these two events represents probably the greatest deflationary force ever exerted on any country any time in history. In this monetary deflation may be found the explanation of the drastic break which occurred in the stock market in the fall of 1946 and the ensuing relatively stagnant market for equities. Additional reasons for investor caution were present in the worsening foreign economic and political situations which resulted in considerable liquidation both from abroad and at home.

It is noteworthy that the moderate monetary deflation which took place did not bring on a business recession. The basic industries continued to work at capacity, except for labor troubles and shortages, and employment actually increased to the limit of the available supply. Commodity prices rose steadily.

Now the striking paradox about the present position of common stocks is that many excellent equities are selling at reasonable prices in relation to their net worth figured at **pre-war** prices and in some unusual cases at no more than the amount of net quick assets per share. In many cases— representing the best investment values—the corporations are showing good earnings which are likely to increase and paying dividends which produce a return on the money invested of from 3½ to 6½%.

II

At this point, it is useful to consider what actually has occurred in the relationship between **money** and **things.**

(Continued on page 27)

Looking Forward

By RAYMOND RODGERS*
Professor of Banking, New York University

Asserting political, social, economic and financial changes of momentous consequence are under way, Dr. Rodgers points out as portents of recession, heavy expansion of bank loans and inflated real estate markets. Foresees need of strengthening bank capital resources. Discounts likelihood of gold revaluation and concludes "it seems reasonable to anticipate a change in economic trends in near future."

World War II is now two years behind us. World War III, the pessimists say, lies ahead of us.

The age-old pattern of international power lies irretrievably shattered. England grimly hangs on the ropes; Russia talks war at every opportunity; and, as a practical matter, only the United States of America stands between her and world domination.


Raymond Rodgers

The New Deal philosophy, or whatever you want to call it, which dominated the national political scene longer than anything heretofore, has withered and died. There are even those who claim that the Republicans are well on their way to taking over completely!

The longest period of sustained, extreme high level production we have ever known lies behind us. Declining business activity—a recession—looms ahead.

The peak of the highest prices known in the United States in modern times has either been passed or is being passed, and declining prices may lie ahead.

The greatest expansion period banking in this country has ever known has come to an end. We are now entering a period of contraction of most balance sheet items and expansion of but few. The practical question facing bankers are which, how long, and, most importantly, how much?

Truly, political, social, economic, and financial changes of momentous consequences are under way. The way we, in America, will meet the challenge of these changes is of vital importance to the entire world. It is not too much to say that the very future of humanity is tied up with our solution of these problems.

In addition to the basic changes I have just mentioned, bankers have the further problem of changes in credit policies by the financial "powers that be." The Federal Reserve Board and the Federal Reserve Open Market Committee are earnestly striving for a formula, or method, which will enable them to reassert a strong measure of control over the creation of reserves at the Federal Reserve Banks.

In the welter of movement and change, conversion and reconversion, claims and counterclaims, it is difficult enough to tell where we are "at" without trying to guess where we are going. Present conditions remind me of the old Southern country preacher's definition of the *status quo*. He said: "Dey is two Latin words meaning de mess we is in."

Be that as it may, there is one thing we do know about the present business situation: We are flying high. We have risen into the economic stratosphere and the "air" is getting mighty thin! They say bankers love to "view with

(Continued on page 38)

*An address by Dr. Rodgers at Annual Dinner, Baystate Corporation, Boston, Mass., Oct. 22, 1947.

INDEX

Articles and News

Regular Features

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, October 23, 1947

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)
Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

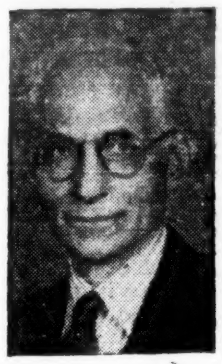
Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Who Makes Prices?

By A. M. SAKOLSKI

Dr. Sakolski, in stressing importance of price policies and price manifestations, points out prices are made in various ways and through different mechanisms, dependent on the nature of the commodity, the relative number or size of producers or consumers, the extent of competition, and other relevant factors. Says price stability and price uniformity is prime objective of both producers and consumers, both under competition and monopoly conditions, and that this stability in the case of standardized products is essential to general economic and industrial progress. Denounces official interference with developed and established price making mechanisms.

Despite the persistent and voluminous discussion of prices during the last three years, and the wild official statements from high political sources that prices are made by speculators and profiteers, few statesmen, industrialists, labor leaders or economists have kept fully and adequately in mind the basic principles of price making underlying price sta- or the factors bility or price fluctuations. A good deal has been said regarding the overworked principle of "supply and demand," and the whole subject has been treated as if it were a simple matter to be solved by some general rule applicable to all prices of all kinds of commodities and services.



A. M. Sakolski

But price making and price fixing are not simple processes.

The subject is intricate and the basic rule of equilibrium of supply and demand cannot explain adequately price fluctuations or other pricing phenomena in the broad and intricate mechanism of the distribution of economic goods and services. The very fact that price fixing and price controls by administrative bodies have been failures throughout history is, in a way, proof that pricing is not a matter of individual or group deliberation and planning, but rather the effects of numerous and varied factors in the whole economy of our social organization.

Nor is this conception a defeatist attitude toward the matter of price regulation or monopoly control. It does not imply a *laissez faire* or agnostic policy in the realm of human action. In fact, the most fundamental economic problems of business and government relate to price regulation and price adjustments. The questions of competition and monopoly, of wages and living costs, of equitable wealth distribution and many others of similar importance are but different phases of price policies and price manifestations. Methods of price making, therefore, affect the interest of all classes of society and are of widespread significance in the formulation of economic and political policies.

I

Under a money economy exchange values, whether relating to goods or to services, are expressed in terms of price. In a specified market, at the same time, the same commodity or service of equal quality under like conditions cannot be sold or exchanged at materially different prices, if the buyers and sellers are uncontrolled and well informed. Because of this fundamental "economic axiom," we have the phenomenon of "market price," both on organized exchanges (such as the New York Stock Exchange and the Chicago Board of Trade) and, in the absence of designated market places in the current quotations found in the press, trade papers, verbal reports, and the like. The farmer's wife usually knows each day the price of butter in her neighborhood though there is no "butter exchange," and, likewise, the banker or importer learns without difficulty current sterling exchange rates, even though he may be entirely ignorant of the forces which have combined to produce the market quotations.

In view of the importance of "market price" as an economic phenomenon, the causes and effects of price changes and the current methods of price-making call for constant and close study by all concerned in human welfare. In agriculture, industry, and commerce, there prevails a manifest tendency to create price uniformities and to promote price stability. The propensity toward monopoly in numerous trades and industries, which centuries of adverse legislation have been unable to eradicate, is a manifestation of this tendency. Along with vigorous monopoly repression there have been evolved such substitutes as "gentlemen's price agreements," "open price associations," "common selling agencies," "allotment of markets," and the like. The legal measures adopted to curb these practices have the same fundamental motive as the age-old injunction against monopolies.

In view of the fact that price stability and price uniformity are the aim (openly or secret) of producers and distributors operating under free competition, the methods by which these objects have been sought or obtained form an interesting and broad field of economic research. In many of the leading trades and industries time and custom have developed peculiar and specialized systems of adjusting and quoting prices of goods, commodities, and services. In some striking instances, such as in cotton and grain marketing and in securities, the methods em-

(Continued on page 32)

Dollar Inflation and 1947 Stock Market Outlook

By JAMES R. BANCROFT*
President, American Institute of Finance, Boston

Tracing dollar inflation during recent period, Mr. Bancroft sees its cumulative effect slackening and production meeting concentrated consumer demands. Sees no bull market ahead despite current high corporate earning power. Urges caution and avoidance of trying, on present "surface factors," to get rich quickly.

We are in a period of major inflation. This inflation has been gaining strength and running now for a period of eight years. In "cost of living" it has reached marked intensity. It just seems to me impossible that a period of major inflation such as this can be corrected by mere recession or by individual readjustments. Only major deflation will do it. The next broad change from existing conditions will inevitably be a major deflation.

James R. Bancroft

Of course the $64 question—or perhaps I should say in this instance the $64,000 question is—**When will a Major Deflation Occur?** Because its beginnings will be very gradual and because of the complex international situation, it is particularly difficult to time the broad change that is inevitably ahead. In individual situations, for example in shoe production in New England, there has already been a considerable readjustment over the past nine months.

The fact, however, that the matter of timing is difficult does not in any degree mean that the eventuality should be minimized—or that reasonable preparations for it cannot and should not be made.

Possibly you are saying by this time—oh, this is one of those fellows that calls all periods of prosperity major inflation — or perhaps you do not recognize the marked difference in the various periods of prosperity we have experienced during the past 30 years.

Over the past seven years, wholesale commodity prices have increased just about 100%, in the seven-year period which culminated in the summer of 1920—the last postwar period—the rise was 140%, while in the seven years ended August, 1929 and March, 1937, wholesale commodity prices actually declined moderately.

There is, therefore, obviously a distinct difference, from this standpoint, in periods of prosperity — the current one being the most inflationary that we have experienced since World War I.

Dollar Fluctuations

With that in mind, I think it will be worth while to stop a moment and trace dollar fluctuations in this country for the last 175 years. Using the 1939 dollar as parity, wholesale prices in this country in 1775 stood at the equivalent of $1.36; by 1779 prices had risen so that the purchasing power of the dollar was equivalent to only 42 cents, but by 1789 it was back to $1.14. In the Napoleonic Wars it again declined to 47 cents but by 1830 it was back to $1.18, reaching a peak of $1.32 in 1860. By 1865 it was down to 43 cents but by 1879 it was $1.32, reaching the highest purchasing power on record in 1897 of $1.65.

By 1920, or at the end of the first World War inflationary period, it was down to 46 cents, by 1933 was $1.29. It is now the equivalent of 48 cents.

Note that, by 10 to 16 years following each of the major wars in that 175-year period, prices had declined to a level giving a purchasing power to the dollar greater than that of 1939.

Now, I am of course familiar with all the various arguments against any such development following the present period of inflation. I am of course familiar with the tremendous amount of manufactured money, the changed labor situation and all the things that are used so persuasively to argue that this time we are on a new high plateau of prices on which we will continue to operate.

All I will say today is that I am a sufficiently "proper Bostonian" so that I just can't go ahead and overlook the facts that I have just given you.

However, simply to say that, by some time within 10 to 16 years from now, there will be considerable readjustment from present inflated prices, does not do us much good from the standpoint of immediate timing. From that standpoint let us examine briefly, as perhaps a partial solution of the question, just what it is that has generated the current postwar boom. I think it is undeniably three things — the tremendously accumulated purchasing power in the hands of consumers at the end of the war, resulting from war restrictions and the type of government financing that was followed; the very definite and natural desire on the part of business to convert wartime expansion to peacetime products and to enlarge and modernize existing plants; and the accumulation of demand for numerous semi-durable and heavy goods that were not manufactured during the war.

These forces, which started to operate immediately at the end of the war, have been operating now for two years and have brought about a boom greater than this country has ever before experienced in peacetime, aided in this regard, as far as 1947 is concerned, by unusually heavy foreign demands.

Cumulative Effect Lessening

After a two-year period, considerable of their force has been exhausted, the cumulative effect is lessening rather than increasing. The 1946 year was a consumers goods boom, the 1947 year has been a durable goods boom.

I think it is a fair statement that the excess, the most easily spent buying power, blew its head off in 1946. That fact was reflected in what happened in certain channels like the fur industry last winter and in retail trade in the first part of this year.

But more important is the fact that this buying power is now being bedeviled by the recent sharp advance in commodity prices. Grocery bills for this country this year will take a $35 billion bite out of our pocketbooks as compared with less than $14 billion in the prewar years we like to use as average—1935-1939.

After producing 15,000,000 radios in 1946 we will turn out about 18,000,000 this year, so that in two years we will have turned out nearly enough to supply each family in the country with one.

(Continued on page 24)

*An address by Mr. Bancroft before the Executives Club, Boston Chamber of Commerce, Boston, Mass., Oct. 16, 1947.

Letter to the Editor:

Conflicting Views on Dow Theory

Correspondent takes issue with A. Wilfred May's contention that Dow Theory is "a logical absurdity," because it assumes each preceding series of events influences subsequent series. Says probability calculous not applicable to stock market forecasts. M. S. Benjamin, partner in New York Stock Exchange firm, calls foretelling securities market trend by mechanical devices pure nonsense.

The Editor, The Commercial and Financial Chronicle:

In "Observations" by A. Wilfred May, which appeared in the Oct. 9, 1947, issue of "The Commercial and Financial Chronicle," it is stated that the Dow Theory is a logical absurdity. This view is based on comparing series of stock prices with games of chance, such as tossing a coin. The author says that "Dow thinking is a converse variation of the psychological fiction that when there has been a run in favor of any particular event, the mere occurrence of that run alters the otherwise mathematically correct odds concerning the next repetition of that event."

The author forgets that time series, of which stock prices are a particular case, do not consist of independent events, which is a required condition for the application of theorems of the Calculus of Probabilities. To illustrate, we assume that one toss of a coin or a dice is completely independent of preceding tosses. This supposition is untenable in time series where an "event" exerts influence upon the "events" which follow it. For example, the price of a commodity this month cannot be considered independent of its price last month. This is one of the reasons why it is so difficult to analyze economic data in time by the methods of mathematical statistics.

The fact that the market averages **are not** subject to the laws of random chance, on which Mr. May bases his contention that Dow Theory is a logical absurdity, was definitely proved by Alfred Cowles and Herbert Jones. In his article on Stock Market Forecasting (Cowles Commission Papers, New Series, No. 6, p. 213), Mr. Cowles says that "the estimated probability was .625 that, if the market had risen in any given month, it would rise in the succeeding month, or, if it had fallen, that it would continue to decline for another month." Mr. Cowles further says that "the probability of obtaining such a result in a penny-tossing series is infinitesimal." (Ibid. p. 213)

In connection with the foregoing subject, Professor Harold T. Davis of Northwestern University, one of the leading mathematical statisticians of America, states in his Analysis of Economic Time Series (The Principia Press, Inc., 1941) that "the second postulate of the Dow Theory appears to be that, when a movement of the market has been for a given time in one direction, the probability is greater than one-half that the next move will also be in that direction. That is to say, there is a kind of inertia which tends to make the averages move for a time in one direction or another" (p. 538). By comparing stock prices with a statistical series constructed by random chance Professor Davis concludes "that the sequences and reversals which are noted in the rail stock series are not of the same statistical character as those observed in the synthetic series; that is to say, if a trend has once been established in the rail stock series, the probability is greater than one-half that it will continue. Such success as the Dow Theory has had in forecasting is due, in the writer's opinion, to this significant fact. Those who doubt may try the simple experiment of forecasting the accumulated series by means of the technique of the Dow Theory. It is evident *a priori* that there could be no success in such prediction." (Ibid. p. 541).

NIKITA D. ROODKOWSKY
White, Weld and Company
40 Wall Street
New York, New York
Oct. 14, 1947.

The Editor, "The Commercial and Financial Chronicle":

I feel that in writing to commend the articles by A. Wilfred May in the "Financial Chronicle" on "Chartism," I am not only gratifying myself but the financial community—even though it does not know it.

Foretelling the future by mechanical devices must be pure nonsense. It may be an easy way to get business — either commissions for buying or selling securities or fees for investment advice. Psychologically it must be deadly for the chartist, as it weakens reliance on research and thinking. It is dangerous for those who trust their money to such devices and devisers. As the investment business depends entirely on the latter for its living, these tricky and unsound practices can only work untold harm to the industry, as disillusionment inevitably occurs.

I wish Mr. May would continue these articles and then put them in a book, for he not only knows what he is talking about but expresses himself clearly and well.

M. S. BENJAMIN
Benjamin, Hill & Co.
1 Wall St., New York City
Oct. 16, 1947.

Odus Horney, Jr., With Blair & Co., Inc.

SAN FRANCISCO, CALIF.—Odus C. Horney, Jr., has become associated with Blair & Co., Inc., of New York, Russ Building. Mr. Horney was formerly with Stone & Youngberg.

King Merritt Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Richard J. Toomey has joined the staff of King Merritt & Company, Inc., Chamber of Commerce Building.

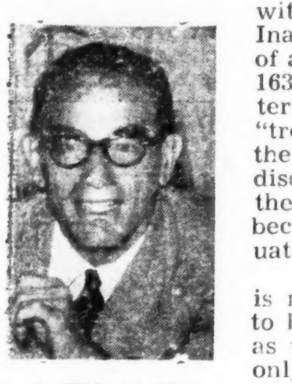
What Profit From Dow Theory?

By A. WILFRED MAY

(Third of a series of articles on forecasting)

"Is this a bull or bear market?"—the $64 question.

The Dow followers' indecision in answering this seemingly embarrassing question, which has continued to the moment of this writing (Wednesday morning, Oct. 22), goes right to the heart of the system's shortcomings, on practical along with the previously-cited theoretical grounds. Inability to define the trend occurs in the face of a rise in the Dow-Jones industrial average from 163 on May 17 to 186 yesterday. This characteristic difficulty of recognizing the market's "trend" is rendered crucial by the Dow followers' themselves basing of their whole system on the discovery thereof. They themselves insist that the fundamental logic of their theory is valid because of the probability of *momentum* continuation.



A. Wilfred May

In the real world of the market place, if it is not important how long it takes for a trend to be defined, and if the common run of traders as well as the Dow theorists have recognized it only after a market swing has to a great extent run its course—all they have done is to make of themselves accurate market historians, abstractly *defining* the bull or bear market after the glorious event.

Because genuine Dow technique is comparatively so clear and definable, ability to arrive at valid conclusions here is unique in appraising results. Nothing can be gained from the competitive recounting of dramatic stories of personal gains or losses through the pursuit of this or that system. Generally scoring of such results *ex post facto* by a non-operator is just as unreliable—and for much the same reasons—as are the reports of his millions of winnings by the *mental* bettor in a gambling house. And even if actual personal dollar-and-cents results should be verifiable, they might prove nothing more than a possible minority exception in the face of the overall evidence.

In the case of the Dow operation, a demonstration of the actual relevant historical record is particularly worthwhile because it vividly demonstrates the fundamental fallacies of the system. And in addition to showing the direct results on the individual operator, we shall in a subsequent article indicate its effect on the community at large. For not only does the Dow following decisively affect the structure of the market in which its own participants are engaged, but their behavior entails repercussions of the broadest scope.

The Actual Box-Score

The actual long-term Dow results are demonstrated by testimony from a leading authority who for many years has conducted a Dow theory service appearing in a leading business and financial paper. This takes the form of a theoretical demonstration of what would have happened through a mechanical following of the basic rules during the past 50 years.

Following are the dates and the respective dimensions of major bull and bear markets since 1896; the dates and prices at which each of those bull and bear markets was "confirmed" or recognized by Dow rules; the size of each bull market as measured by the percentage rise from its starting price; and of the greatest significance, in the extreme right-hand column the proportion of each bull market which the Dow theorists missed, computed by assuming that a long position would not be closed out until the advent of a succeeding bear market was recognized.

COMPLETE BULL MARKET			Bull Market "Confirmed"		Succeeding Bear Market "Confirmed"		Percentage of Complete Bull Market Missed by Dow
Dates	Price Range	% Rise	Date	Price	Date	Price	
8-'96— 4-'99	30— 76	157%	6-'97	45	12-'99	64	59%
6-'00— 9-'02	54— 68	26	10-'00	59	6-'03	60	93
11-'03— 1-'06	42—103	144	7-'04	51	4-'06	92	30
11-'07—11-'09	53—100	89	4-'08	70	5-'10	84	71
7-'10— 9-'12	73— 94	27	10-'10	81	1-'13	84	86
12-'14—11-'16	53—110	107	4-'15	65	8-'17	86	63
12-'17—11-'19	65—119	81	5-'18	82	2-'20	99	68
8-'21—10-'22	63—103	61	2-'22	83	6-'23	90*	82
7-'23— 9-'29	86—381	338	12-'23	93*	10-'29	305	18
7-'32— 3-'37	41—194	371	5-'33	84	9-'37	164	48
3-'38—11-'38	98—158	60	6-'38	127	3-'39	131*	93
4-'39— 9-'39	121—155	28	7-'39	142*	1-'40	145	91
4-'42— 2-'46	92—206	122	6-'44	145	9-'46	178	71

*Showing "bull" confirmations at actually higher, instead of lower levels than the preceding bear signals.

Their major difficulty can be clearly appreciated from the elapsed time and distance between the beginning of a major market and the recognition thereof, and from the extraordinary high percentages in the right hand column, up to 93% on two occasions, showing the proportions of the market cycles which escaped the Dow theorists through non-recognition of the nature of the market.

Dow Perversion

Some Dow defenders claim that as the rules for "confirmations" may be too rigid, they need not be awaited (although the

(Continued on page 43)

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

The story of total industrial output for the past week shows little variation from that of previous weeks, moderate increases being the rule both for the week and one year ago. The employment picture too remained stabilized with the nation's total working force holding at a very high level and with labor disputes kept down to a minimum. However, some lines continued to suffer from the limited supply of some raw materials and skilled labor which resulted in lower production. The state of order backlogs continued to hold at substantial levels as was true in months past.

In retail trade consumer buying in the week just ended was moderately above the levels of both the preceding week and the corresponding week a year ago. The Columbus Day holiday brought an influx of shoppers into many stores with the response to most lines of merchandise very favorable. The buying of food proved to be substantial despite the urgings of government spokesmen to curtail food consumption.

Wholesale volume rose moderately during the week and remained well above the level of the like week of 1946. The settlement of the Railway Express strike in New York City contributed to an improvement in deliveries to many other areas.

Several production records were established last week with steel output in the vanguard. For the week beginning Oct. 13, 1947, steel operations touched 96.8% of capacity, the highest level since June 9, last, when the rate stood at 96.9%. For the current week the steel capacity rate is scheduled at 97.1%, or a new high since the week of June 19, 1944, when it touched 97.3%.

The current rate, it is reported, virtually assures a new peacetime production record of around 7,500,000 tons for the month of October and is also the highest for any week in peacetime, being topped only a score of times during the peak production weeks of the war period.

Soft coal production also attained a new high point since June as well as crude oil output which set a peak. In the transportation of the notion's goods, a tally of revenue freight loadings for the weeks ended Oct. 4 and 11, reveal that more cars were loaded in each of those two weeks than in any other week in a little more than 17 years. Construction expenditures during the month of September also broke through previous high levels to reach a new post-war peak of $1,500,000 000, or a gain of $31,000,000 over the month of August, according to the Bureau of Labor Statistics.

Inflationary tendencies again cropped up during the week with wholesale commodity prices breaking into new high ground, and retail prices of bread, the poor man's staff of life, destined to rise, due to an advance in flour prices. In the footwear field one of the world's largest manufacturers has announced the current week, wholesale price increases ranging from an average of 35 cents a pair on children's shoes to 95 cents a pair on men's footwear, effective October 20. The increases were attributed to the higher costs of raw materials from which leather is made. Advances in men's suits varying from 5 to 7% by manufacturers will, it is reported, take place in the spring.

Further encouragement to the upward spiral of prices is being forecast by some with the removal of Federal controls on instalment buying in the form of Regulation W, which comes to an end on November 1, next.

The present demand for goods is being maintained by the high level of income payments to individuals, which approximate an annual rate of more than $190,000,000,000 and by the expansion in consumer credit.

With this credit expansion a reality, it is noted that a proportional decline in cash sales has been occurring throughout most of the post-war period and with the removal of Federal restrictions additional sales will result. However, the lifting of these controls will be tempered somewhat by steps now being taken by credit managers to follow sound credit policies rather than permit borrowers to get too deeply in debt.

STEEL OPERATIONS SCHEDULED AT 97.1%—HIGHEST RATE SINCE JUNE 19, 1944

Stabilized steelmaking costs have been shattered this week and steelmakers are now entering one of the most serious squeeze plays in their history, according to "The Iron Age," national metalworking weekly. Rising freight costs and one of the strongest scrap markets on record are rapidly eliminating any safety margin to profits which may have been obtained through the steel price increase of a few months ago.

If raw materials for steelmaking and freight rates continue to advance, no steel company can continue to sell steel at current prices, says the magazine. Reports are current that the price of tin-

(Continued on page 37)

Joins Morgan Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Robert C. Glines has been added to the staff of Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange.

Economic Reconstruction and Marshall Plan

By THOMAS H. McKITTRICK*
Vice-President, Chase National Bank of New York

Mr. McKittrick points out though Europe is producing, output is not enough to provide reasonable living standards and extraordinary measures as Marshall Plan are needed. Analyzes present situation and concludes assistance should be directed to supplying food, raw materials, capital goods and a certain quantity of dollar exchange. Places prime objectives of Marshall Plan as: (1) more production; (2) stable price level; (3) properly adjusted exchange rates; and (4) properly adjusted wage rates. Sees no need for direct U. S. intervention in Europe's economy.

At this session of the National Foreign Trade Convention we are to take up the financial aspect of international commerce, how goods exported from one country and imported into another are paid for. There are of course many other categories of international payments, those which seek to transfer funds for capital purposes, for payment of interest on loans and dividends on stocks, for the expenses of travellers and of a dozen different sorts, for family remittances and other gifts to mention only a few. Today when the exchange of the national currency for others as well as the import and export of goods are regulated officially in most countries it is gratifying to find that payments for merchandise and commodities are permitted more freely than any others. That is obviously right and wise, for the welfare of whole populations depends in varying degrees on foreign trade, but we must strive for the return of free dealings in foreign exchange, irrespective of their purposes, and the right to import and export as we see fit without first obtaining official permission. Foreign trade must be released from all sorts of regulation if it is to attain its full development and my purpose today is to try to outline to you the way in which the Marshall Plan so-called can serve to stabilize economics and finance in the countries it is designed to benefit, helping thus to eliminate the conditions which have led to controls. That this may be accomplished altogether and in short order is probably too much to hope, but it seems to me reasonable to look for substantial gains in this direction.

T. H. McKittrick

The theme of international payments has assumed such importance of late that you are all probably tired of hearing and reading about the need for international relief, about dollar shortages, the British crisis, the Marshall Plan, and so on. I offer you my apologies and my sympathies that you are to hear more on the same general subject from me here today.

Types of Europe's Needs

When I first sat down to clarify my thoughts as to what I should say this afternoon, I turn to what my fellow St. Louisian, William McChesney Martin, said at last year's Convention in New York. Many of you who were there will remember that he referred to three types of need which had been foreseen and provided for—

Relief Needs: They were to be handled by UNRRA.

Long Term Reconstruction and Development: Under the Bretton Woods Agreement there was to be set up the World Bank for these purposes, and the United States Congress had increased the lending authority of the Export-Import Bank to care for the intervening period before the World Bank could begin operations.

British Balance of Payments: As a part of the Anglo-American Agreement, we had granted a credit of $3¾ billion to the United Kingdom and Canada had contributed $1¼ billion, making together $5 billion and it was felt this sum would in all probability suffice. A year ago I would have said exactly what Bill Martin did. UNRRA as well as the two Bretton Woods institutions looked forward to a world united not only by economic ties but by a single policy of reconstruction. These were promising steps and there was every reason to hope that steady progress would be made toward a reconstructed active, healthy, stable and balanced economy in most parts of the world. It now seems that we underestimated the difficulties, both political and economic, of restoring production, particularly the production of coal on which so much other production as well as transportation depends. We also failed to realize how disastrous would be the effect of Germany's

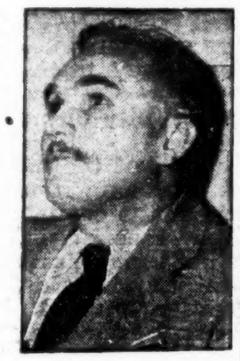
(Continued on page 34)

*An address by Mr. McKittrick at the 34th National Foreign Trade Convention, St. Louis, Mo., Oct. 20, 1947.

From Washington Ahead of the News

By CARLISLE BARGERON

It must seem amazing to a lot of bewildered Americans that for two years there has been a tremendous agitation about the plight of Europe, and what we must do to save her, and little or nothing about the plight of Japan or anything that we must do to help her. We have already poured billions into Europe and we are told this is just the beginning. I have heard of no loans or grants to Japan. The American people are now being asked to observe meatless Tuesdays and poultryless Thursdays to feed Europe. There is no such movement to feed the Japanese. Certainly Japan was battered up during the war just as much as Germany, as France, Poland or what have you. Yet we've heard none of the stuff from her that her people are starving, that she must be saved from communism. About all we hear, in fact, is an occasional statement that MacArthur is doing a good job and that he may show up in this country next year just in time to confound the voters.



Carlisle Bargeron

I suppose there is no doubt about his doing a good job. But it is my opinion that this doesn't explain the relative serenity of that country.

The more likely explanation of the tremendous agitation in this country about Europe and the lack of it about Japan is that there are no Japanese voters in this country. They don't constitute formidable racial blocs in our industrial cities or our farm belt to whom our politicians must cater. The plight of a Jap in far-away Tokio doesn't stir up the feeling of kinship as does the plight of a Czechoslovakian in far-away Prague.

We are enmeshed in European politics and apparently we always will be because so many of our people still consider a European country their homeland.

It was really unnecessary for our Congressmen to go over there to ascertain conditions. You have only to analyze their constituencies to know what they would find. A man like John Taber, Chairman of the House Appropriations Committee, has little or no foreign strain in his constituency. Thus he can give a fearless and unbiased report. This is not true of the man with German-Americans, Italian-Americans, Polish-Americans and the like predominating in his district.

An exception to the returning Congressmen who are influenced by their constituencies is Dewey Short who has a rural Missouri district. Dewey is weeping about conditions in Germany just as much as those with large German-American constituencies. But Dewey had spent a lot of time in Germany, before the war. He attended Heidelberg as a youngster.

I am not saying that conditions are not bad in Europe. I have never known the time when I didn't have a sinking feeling when visiting European countries. The countries and the people have always appeared run down to me, even in that great citadel of culture, France, where women frequently take the place of oxen in the fields.

My whole visit to Warsaw, Poland, a few years before the war was ruined by the sight of a couple of women, flower vendors, fighting in the street. I doubt there were more than a few strands of hair left in their heads when the cops finally succeeded in separating them.

If you want to see abject poverty, you don't have to go to war-torn Europe. Just cross the Mexican border. At San Diego, Calif., for example, you see a modern American city, well-built houses and well-built stores. You take a bus for the Tia Juana race track and this modernity accompanies you right up to the imaginary line. You step across it and there are the filthy adobe shacks with Mexican peons lying around, too shiftless apparently to brush away the insects. You feel you are taking your life in your hands to walk up the main street, not necessarily from an attack by a criminal but from disease. It is almost inconceivable that there could be such distinct civilizations right alongside each other. But the war didn't do it. It has always been this way and it has always been that way about Europe.

Our bleeding hearts go over to Europe now, fresh from their well-built and well furnished homes, fresh off a palatial liner and are appalled at the difference in living standards. They go around searching for their favorite dish and conclude that the people are starving when they can't find it. A returning newspaperman was telling a group of his colleagues the other day that England was so run down that he couldn't get a single piece of his favorite fruit. He was quite surprised when an old-timer pointed out to him that England never had had that fruit.

Our newspapers have been filled with stories, by bleeding hearts, too, of the peasants of Eastern Europe feeding our canned goods to their stock because they were not used to eating that particular stuff. The point of these gentlemen has almost invariably been, not that we shouldn't send more and more food but that perhaps literature should accompany it to tell these people how to prepare certain dishes with it. It is hard to understand starving people being choosy.

Import Trade Promotion

By PERRY J. STEVENSON
Assistant to Associate Director
Office of International Trade, Department of Commerce

Commenting on neglect to foster imports, Mr. Stevenson notes change in our international trade position that has led to setting up an Import Advisory Committee in the Commerce Department. Sees enlarge imports needed to preserve national resources and to maintain supply of dollars to foreign importers. Says import promotion is handicapped by insufficient customs personnel, but points to present customs revenues as highest on record.

Styles in trade promotion change just the same as the length of the ladies' dresses. For more than three decades American business has emphasized the promotion of exports, so much so in fact that foreign trade and exports were almost interchangeable words. As the result of a number of factors, a gradual evolution is taking place and for the first time in our history a substantial part of the international trade promotion activities of both business and government is being devoted to a realistic attempt to aid in the development of a greater volume of import trade.

Perry J. Stevenson

Laying Waste Basic Resources

For many years the American nation has been laying waste its basic resources. The stimulated demand and vastly increased consumption of our raw materials during the war period have made us conscious of the fact that the supplies of many necessary raw materials have been heavily depleted, in some cases below a reasonable margin of safety. One important avenue of conservation is through importing those critical supplies which are essential to the maintenance of the current high production levels. Closely akin and to a certain extent overlapping, are the requirements of those "strategics" necessary in periods of national emergency.

Perhaps the current factor which more than other is accelerating this evolution in trade policy is the growing shortage of American dollars in the possession of foreign countries. This problem stems from the fact that the post-war demand for American goods and services has been maintained at record peacetime levels without a commensurate increase in our purchases abroad. The net result of this exceptional flow of exports has been the drawing down of dollar balances, in some cases to a dangerous level. As a natural sequence, there has been a trend on the part of important manufacturers and exporters to develop new import branches of their business as a direct means of providing dollars with which their overseas importers could purchase the manufactured products of the American seller. In other cases, exporters have endeavored to find in barter a method whereby they could maintain their present level of exports or at least minimize the effect of the growing widespread shortage of American dollars.

U. S. Import Advisory Committee

In line with this new emphasis, the Office of International Trade has set up an Import Advisory Committee, including in its membership a representative cross section of the import activities of the country. While advisory committees are not a new device, the appointment of this group in 1946 was the first time the Department of Commerce has had a group of this character especially appointed to aid the Secretary of Commerce and the Department in the development of import trade promotion programs. The establishment of an Import Advisory Division in the Office of International Trade in 1945, even though it had a short existence, also gave impetus to special import studies and to focusing attention on their importance in the national economy. After the usual trial and error approach, it was finally recognized that the techniques which had been developed for the promotion of exports were, with reverse English, those most suitable to the practical day by day assistance needed by both new and established importers.

Incidentally, the problem of the Office of International Trade is not radically different from that of any business. We have added a new "line." In addition, therefore, to taking care of the heavy demand, for assistance to our exporters, we have to build a new clientele, which requires advertising our wares. Judging by the volume of inquiries received, except in our New York Regional Office and sporadically in other areas, we have to create a knowl-

(Continued on page 40)

International Monetary Fund Should Aid In European Rehabilitation

By ERNEST H. WEINWURM

Writer maintains Fund should revise its present passive policies and take a more active part in bridging the gap during the interim period until the Marshall Plan becomes operative. Says it should permit the needy countries of Western Europe to purchase dollars up to 50% of their quotas at special interest rates and repayment provisions within the limits of the Charter. Holds such an active policy of the Fund would have far-reaching and beneficial effects for future stability.

There has been a remarkable difference in public attitude toward the twin Bretton Woods institutions. The International Bank, from the very beginning, has been under fire from many different quarters. When internal organizational difficulties delayed lending operations and flotation of its bonds was hampered by innumerable legal handicaps, public impatience expressed itself with little restraint.

Ernest H. Weinwurm

Yet scant attention has been given to the activities of the International Monetary Fund. This is rather surprising; for the Fund was considered the cornerstone of the postwar structure by the architects of Bretton Woods with the Bank playing second fiddle only.

The work of the Fund up to now has been quite a disappointment for those who expected so much from its activities despite the fact that it recently has made sizable loans to Great Britain and France. It has obviously failed in its principal purpose to give leadership in the field of international monetary policies and to use its influence to promote better understanding among its members of sound management in monetary affairs. The U. S. Department of State has now been compelled to do at the Paris conference what the Fund should have been doing since it began operations but completely failed to do.

This may be just one more proof of the usefulness of public discussion and criticism. The International Bank had to consider public reactions; the management had to go out and submit its policies to expert review. The result was a set of rules and principles which may not be perfect in every respect but represent a suitable basis of future progressive evolution.

The Fund management apparently felt that there was no reason to take the public into its confidence. And yet its resources are not derived from private sources but represent government funds. Surely, the taxpayers of the world, and particularly those in the United States—who as usual had to raise the largest share—have a right to be told what the Fund intends to do to make the best use of its available personal and material resources.

The recently published second annual report of the Fund might have afforded the management an opportunity to give an account of its stewardship and its intentions for the future. The report of the International Bank discusses all these matters at length. But the managers of the Fund did not see any reason to satisfy the curiosity of "outsiders." They are merely given a few generalities and a summary of facts that had been made public before.[1]

The Fund, they are told, had been intended as part of a permanent machinery of international monetary relations rather than as an emergency device to meet the special needs of the postwar years. Its objectives can be fully realized only when productive efficiency has been restored to the point where members can achieve a balance in their international payments. The discussion is summed up with the observation that "the Fund cannot solve these problems [the world is now confronted with] but the role which the Fund will be able to play in the future must inevitably be determined in large measure by the way in which these problems are solved."

Obviously, the Fund management intends to play the role of a very much interested spectator of present world events but does not feel that it has an active part in these events or even a responsibility to influence or guide them.

The same official position is expressed even more strongly in a statement explaining that the Fund cannot make any "significant" contribution to the problem of dollar shortage. It is limited to short term operations with a "punitive" scale of interest charges. Moreover, use of the Fund is restricted as to amounts

(Continued on page 28)

1 The introductory General Comments are reprinted in the Sept. 18 issue of the Commercial and Financial Chronicle.

Public Utility Securities

West Penn Electric

American Water Works & Electric, which recently sold its water works properties by offering the stock of American Water Works, Inc., now plans to distribute its electric interests and dissolve. The company owns substantial amounts of the preferred stocks and Class A and B shares, as well as all the common stock, of the intermediate holding company, West Penn Electric. All these holdings with the exception of the common stock have now been "donated" to West Penn, for cancellation. It is proposed to issue additional shares of West Penn common stock so that the total number will equal the number of Water Works shares outstanding. This will permit a share-for-share distribution to American stockholders.

American's plan of dissolution was approved by the SEC and the Federal court last March, and under this plan the company must file its intention to dissolve with the Secretary of State in Delaware by approximately mid-December. The exact time of dissolution however is not yet definitely known, since there may be a considerable delay before it is determined whether the company must pay the redemption premium on the preferred stock (for which funds have been set up in escrow). However, it appears likely that Water Works might distribute West Penn Electric by the year-end or early next year, with a final liquidating dividend at some future date. (The size of this dividend would largely depend on who gets the escrow fund.)

After adjusting the earnings of West Penn Electric for the cancellation of portions of the preferred and Class A and B stocks and for the increased number of common shares, the earnings are currently estimated around $3 per share. How much out of this could be paid in dividends initially? Judging from the history of United Light & Railways, Electric Bond and Share, etc., a rate of at least $1 might be expected. At present (judging from the 1946 report) West Penn is "taking down" only about two-thirds of its equity earnings, or in the neighborhood of $2 a share. The flow of earnings is complicated by the fact that the principal subsidiaries — Potomac Edison, West Penn Power and West Penn Railways — are both operating and holding companies. Also, there are some tangled inter-corporate relationships. Eventually, West Penn Electric will doubtless refund its preferred and class A stocks and if this could be effected on a 4½% basis the earnings for the common stock might increase by about 30c a share. It may also prove necessary to simplify some of the inter-company holdings and possibly to eliminate West Penn Railways.

It is possible that eventually West Penn Electric might be able to pay out as much as $2 a share assuming that system earnings continue around present levels. What would this make the stock worth? Under present market conditions the answer might lie between 25 and 30. With a $1 dividend the stock might be expected to sell in a similar range with United Light & Railways—somewhere in the 20-25 range. Hence the "breakup" value of American Water Works & Electric would lie in the range 20-30, plus whatever small value the "stubs" might have — probably one or two points.

American Water Works & Electric is currently selling around 17½ compared with this year's range of 18⅞-12 and last year's range of 28¾-13⅝. The segregation of the water properties did not have much effect on the price since the subscription rights were valued at only about 1/64 in the final trading.

With H. Hentz & Co.

H. Hentz & Co., members of the New York Stock and Curb Exchanges, the New York Cotton Exchange and other leading stock and commodity exchanges, announce that Emil Lipmann has become associated with the firm's uptown office at 781 Fifth Avenue.

John L. Ahbe & Company

(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, FLA.—John L. Ahbe is engaging in a securities business from offices at 241-A Worth Avenue, under the firm name of John L. Ahbe & Company.

NYSE Group Requests Vote on Permissive Incorporation Issue

A petition, containing 300 signatures, was filed with the Board of Governors of the New York Stock Exchange on Oct. 21, asking that the constitution of the Exchange be amended so as to permit permissive incorporation of members. The board rejected a similar proposal last January, but it is expected that it will take the matter up again at its regular meeting on Oct. 23. If acted on favorably, it will be submitted to a vote of the membership within two weeks. In the meantime it will receive attention from the SEC, whose approval will also be required before it can be put into effect.

World Bank Reports Operating Deficit

For the three months ended Sept. 30, the International Bank for Reconstruction and Development reports an operating deficit of $877,685. After deducting $422,442 for a special reserve fund, the income for the quarter was $2,538,741, against expenses of $3,416,426. The principal source of income was from interest on loans, amounting to $1,372,928. The next largest item was $654,940 income from securities, mostly U. S. Government bonds.

Lerner a Director

Louis C. Lerner, of Lerner & Co., Boston, Mass., has been appointed a director of Victoria Gypsum Co.

Louis C. Lerner

With Field & Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE. — Field & Co., Inc., Cascade Building, has added Jennings O. Stendal, Jr. to the firm's staff.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Automobile Equipment Company Common Stocks — Study — E. W. Axe & Co., Inc., 730 Fifth Avenue, New York, N. Y.—paper —25¢ (free to public libraries and non-profit institutions).

A list of active "**Cats and Dogs**" selling for $1 or lower, together with a list of **50 Low-Priced Dividend Payers** showing dividends paid or declared in 1947, available from Herzog & Co., Inc., 170 Broadway, Nek York 7, N. Y.

How to Be Taxwise in Your Security Dealings—Income tax guide designed for investors exclusively, by J. K. Lasser—sponsored by Distributors Group, Incorporated, 63 Wall Street, New York City—copies of the booklet will not be sold, but are available upon application to Distributors Group, Inc.

ICC Rate Decision of Oct. 6, 1947 —Circular—Dick & Merle-Smith, 30 Pine Street, New York 5, N. Y.

New York Banks and Trust Cos. —62nd consecutive quarterly comparison of leading banks and trust companies of New York—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

New York City Bank Stocks— Circular on earnings comparison for third quarter of 1947 on 19 New York City Bank Stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Railroad Developments of the Week — Current developments in the industry—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Southwestern Industrial Preferred Stocks—Comparison in recent issue of "Current Quotations and Topics"—Rauscher, Pierce & Co., Inc., Mercantile Bank Building, Dallas 1, Tex.

Why Long Term Municipals Are Attractive for Bank Investment— Study—Channer Securities Co., 39 South La Salle Street, Chicago 3, Ill.

* * *

Amerex Holding Corp.—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

American Cyanamid Co. — Investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Also available is a summary and study on **Commonwealth Gas Corp.**

American Furniture Co.—Special report—Arthur I. Korn & Co., 50 Broad Street, New York 4, N. Y.

Also available are special reports on **Crampton Manufacturing Co., Miller Manufacturing Co., Tennessee Products & Chemical Corp., Higgins, Inc., Common Stock, Maxson Food System, Preferred Stock,** and **Central Public Utility 5½s of 1952.**

American Hardware Co.—Circular—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

American Hardware Corp. — Memorandum—Bond & Goodwin, Inc., 63 Wall Street, New York 5, N. Y.

American Water Works & Electric Co.—Memorandum—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Best Foods—Detailed study and outlook—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Central Vermont Public Service Corp.—Memorandum in the current issue of "**Public Utility Stock Guide**"—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Colorado Milling & Elevator Co. — Data — Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available is information on **Portsmouth Steel** and **Beryllium Corporation.**

Graham-Paige Motors Corp.— Analysis—Seligman, Lubetkin & Co., 41 Broad Street, New York 4, New York.

Also available are analyses of **Osgood Company "B," Tennessee Products & Chemical and Fashion Park.**

Lake Superior District Power Co.—Analysis in the current issue of "**Business and Financial Digest**" —Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Liquidometer Corp.—Analysis— Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

Long Bell Lumber Company— Detailed analysis available for interested dealers—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Nu-Enamel Corp. — Memorandum for dealers—Carter H. Corbrey & Co., 135 South La Salle Street, Chicago 3, Ill.

Oil Exploration Co.—Memorandum—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Palace Corp.—Circular—Smith, Hague & Co., Penobscot Building, Detroit 26, Mich.

Portland General Electric Co.— Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available is a memorandum on **Otis Elevator Co.**

Portsmouth Steel Corp.—Data— Buckley Brothers, 1240 Walnut Street, Philadelphia 2, Pa.

Also available is late information on **Beryllium Corp.** and **Gruen Watch.**

Portsmouth Steel — Special report—Ward & Co., 120 Broadway, New York 5, N. Y.

Public National Bank & Trust Co.—Third quarter analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Rexall Drug Co.—Memorandum —A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Utica & Mohawk Cotton Mills, Inc. — Circular — Mohawk Valley Investing Co., Inc., 238 Genesee Street, Utica 2, N. Y.

COMING EVENTS
In Investment Field

Oct. 31, 1947 (Chicago, Ill.)
Illinois Security Dealers Association Annual Dinner at the Terrace Gardens of the Morrison Hotel.

Nov. 30-Dec. 5, 1947 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

November, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

What Is the Business Outlook?

By PRENTISS M. BROWN*
Chairman of the Board, Detroit Edison Co.
Former U. S. Senator from Michigan

Utility executive and former OPA Administrator, after reviewing growth in national income, increase in purchasing power and tremendous unsatisfied demand for goods and services following end of war, contends that prices are not too high and are likely to be maintained for many years to come. Holds velocity of business, in immediate and long range picture, is promising, and though there are many businesses where prices could be increased, others are keeping prices down.

The principal theme of what I was going to talk to you on is of interest to all business people, and it is from the standpoint of a man in the public utility business and also from my background in government, "What Is the Business Outlook?"


Prentiss M. Brown

I am trying in what I say to you tonight to reason with you upon that subject, and then bring to bear a couple of authorities. As I view it, the scarcity of goods at the present time is very different, both in character and amount, from the scarcity which took place after the First World War.

Everyone naturally draws a comparison between the two. I know from my experience in the Office of Price Administration that we made no such all-out effort in 1917 as we did in 1943 and the years following. I know that there was no such devotion of industry to the task of supplying materials for war in the First World War compared with the Second World War.

Present Scarcities

Following the First World War there was no such scarcity of goods as at the present time. Just go over in your own mind the things that you want and can't get—automobiles, most difficult to get; clothing—and I was very happy that Charlie Ghesquiere so arranged it that we did not have to wear tuxedoes this evening, because I ordered one a year ago, and it is not here yet, and if I had had to come in the one that I have at home there would be a pretty wide expanse of white running up and down in front—and you all know the same condition exists in electrical supplies, building materials, steel and lumber, and numberless other articles.

A Congressman told us the other night at a little dinner here that in the steel business we had only 10 years of ore left in the great Mesba Range in Minnesota. It is not so, and I took the liberty of writing a letter to men who were there denying that statement. There are tremendous reserves of ore, and the Great Lakes area will be, in my judgment, for many decades the center of the steel and iron business. The ores are not of as high a grade as the present 52% ore that comes from the Mesba, Marquette, Menominee and Gogebic Ranges, but ore of a lower grade is there in tremendous quantities.

But for all these scarcities that I have outlined, we have a tremendous demand. I was told by the head of one of the great building material corporations in the United States that they anticipate a large business for many years to come, based not upon the general situation—of course, it is based mainly on that—but because of another factor. That is, the tremendous amount of flimsy construction that has taken place during the war years that will demand replacement.

Public Purchasing Power

Now, what is the other side of the picture, the purchasing power? I was amazed when I picked up the September Bulletin of the Federal Reserve Board at the amount of "E" Bonds in the hands of the public. I have sat on the Bank Board where I saw tremendous amounts of "E" Bonds that were being cashed, and I supposed that they were not much of a factor in our Federal debt of $250,000,000,000; but in round figures, there is a little less than one-fifth or fifty billions of dollars in the form of "E" Bonds which may be cashed by the public immediately, and that, as you all know, is a great potential buying power.

Bank deposits during the time of the troubles of 1932, 1933 and 1934, were, eliminating interbank deposits, around fifty-five billions of dollars. Today bank deposits are one hundred and forty billions of dollars, about two and a half times what they were then. You may immediately say that prices have gone up, but they haven't gone up that much. The general average cost-of-living items from the period 1935 to 1939, calling that 100, is now 160% of what it was in the 1930 to 1939 base period.

Extending figures along that line we find that the national income in 1929 was the largest national income that we had previous to 1930. It was seventy-nine billions in 1929, and it dropped to thirty-nine billons, or almost a third, in 1933. In 1939 it was seventy-two billions, and in 1941 it was 103 billions. That is the annual earnings of the people. In 1944 it was 182 billions, and in 1947, this year, mostly actual figures, partly estimate, almost two hundred billions of dollars, a total of 197 billions of dollars. Those figures are some indication of the purchasing power of the American people.

Growth of National Income

In other words, the national income has multiplied itself almost three times from 1939 to 1942. Prices—and nobody is more concerned with prices than I am, I fought through and carried through the Price Control Act in the Congress of the United States against bitter opposition. I know that it was necessary to the economy of the United States, and I know that our debt, instead of being around $250 billion today, just in its effect upon the purchases by the United States Government, would probably be around $400 billion if we had not controlled the price of steel and all of the commodities that went into the purchases of the Government of the United States, not to say anything at all about its effect upon the American people.

So as I say, I fought the Price Control battle. I also say that I spent 20 years in Washington, 10 in the Congress of the United States and 10 in the Office of Price Administration, although it

(Continued on page 27)

*From a stenographic transcript of an address by Mr. Brown before the Sixth Annual Conference of the Institute of Internal Auditors, Detroit, Mich., Oct. 13, 1947.

Production Is Key to European Recovery: Col. Pope

President of First Boston Corporation says mere lending or gift of dollars will not solve problem. Sees only hard work and production as remedy for dollar shortage.

The successful rehabilitation of industry in the war-torn nations of Western Europe cannot be achieved by the mere lending or even granting of dollars by the United States or by the World Bank, Col. Allan M. Pope, President of the First Boston Corporation, told the Alumni Association of the New York University Graduate School of Business Administration meeting at the New York Curb Exchange on Oct. 21.


Allan M. Pope

"The problem before these war affected nations of Europe is not that of getting dollars," Col. Pope declared. "The shortage of dollars is not a condition—but, in reality a result of a condition. The problem is to increase production and to provide more goods of all kinds to be consumed at home and particularly abroad. This can be aided by the World Bank and may become a major function of the Marshall Plan when worked out.

"The achievement of a higher level of production can be accomplished only by a combination of hard work, self-denial, the availability of adequate funds, and the managerial know-how of private enterprise," Col. Pope declared.

Decrying the existing difficulties in obtaining the use of American private enterprise and capital in those nations, Col. Pope believes that the World Bank may well be helpful in obtaining relaxation of present restrictions and may make it possible and attractive for American industry to help revive the war-destroyed industries abroad.

"One of the generally recognized solutions for the rehabilitation of European industry is the direct investment by industry in this country either through the purchase of a part of an existing industry abroad or the establishment of branches.

"Waving aside all the other complications that naturally arise, the essence of such an undertaking presupposes a certain amount of capital in the form of American dollars available to these industries and the entrance of American "know-how" to supplement present depleted management as generally exists.

"With conditions such as they are, particularly in western Europe, it becomes obvious that American industry will not find such undertakings feasible because of the risk for one reason or another. The problem that then arises is what can be found which will attract American industry into such direct investments. And when the means is found to entice American industry then to what extent must such industry be assured of a return in dollars of their investment or on their earnings?

"Some countries in this hemisphere have received considerable attention from industry and numbers of industries have made direct investments but in such cases, generally speaking, they are relatively small in number of dollars invested and therefore the question of whether or not an adequate return on the investment is forthcoming in dollars is not a matter of as great importance and therefore is a risk which several industries have been willing to take.

"To make a dent in rehabilitating western European industries and to bring about a production of sufficient size to compete in the international markets and thereby produce a sizable amount of dollars is a matter in which size is essential.

"It is too early to figure on what the Marshall Plan may be able to do and because a cooperative effort is essential it may be too early to know what the World Bank could do, but it is not too early for manufacturers in this country to give this question thought, to know how they could go about solving the problem and to know what aid they might need in the solution."

Sees Building Hampered by High Costs

In an address before the Structural Engineers Association of California on Oct. 17, James W. Follin, who is Assistant Administrator of the Federal Works Agency, pointed out that, because of high building costs, the nation's construction industry is not fulfilling the nation's requirements. According to Mr. Follin, "new construction activity averaged about 10½% of national income during the 20-year period from 1920 to 1939. It is now running but little more than half that rate even in terms of current dollars. Construction volume today is about the same as it was in 1939.


James W. Follin

"By contrast, production of manufactured goods this year is well above 1939. The Federal Reserve Board index of the physical volume of industrial production indicates an increase of 60% from 1939 to July of this year. Keep these figures in mind. Production of manufactured goods rose 60%, while the volume of construction barely rose at all."

In explaining this, Mr. Follin stated: "Construction prices have risen faster than the prices of manufactured goods. The relation of income to construction costs should be a good indicator of ability to purchase the products of construction, particularly the relationship of family income to construction costs and the ability to purchase houses. If we examine the data relating to non-farm disposable income and the number of non-farm families, we obtain a figure representing the average disposable income per non-farm family. We find that family income, in terms of current dollars rose about 130% from 1915 to mid-1947. If we examine construction costs—and for this purpose I am using the American Appraisal Company index because this index attempts to measure changes in costs per unit of construction rather than materials alone or wages alone—we find that construction costs have risen 320% over the same time period. This index excludes plumbing, but even if we make statistical allowances, I think it is amply clear that as a long-term trend, construction costs have far outrun increases in family income. It takes more out of the family income to pay for a house today than it took out of the family income in 1915."

Railroad Securities

The general reorganization picture was further complicated last week by the release of a letter sent to the Supreme Court by the Interstate Commerce Commission in the Rock Island proceedings. Only about a week earlier it had been reported that the Commission had refused the request of one of the lawyers in the case to offer its views to the court. Now the Commission on its own initiative, and without an invitation to express its opinion as it had in the Missouri Pacific proceedings before the Circuit Court of Appeals, has entered the case with a controversial letter to the Chief Justice.

Actually, the letter did little more than inform the Supreme Court that in the event the plan was remanded to it the Commission would comply with the law. It was stated that the object of the letter was to advise the court that should certiorari be granted, and the plan be remanded to the Commission the Commission was prepared to give full hearings on the facts and to issue an appropriate report thereon. Under Section 77 of the Bankruptcy Act it could hardly do less than that once the plan was remanded. The letter did take cognizance of the fact that there have been material changes in the situation as it affects the railroad since the plan was initially submitted, but went on to say: "The Commission, of course, does not attempt to appraise the effect of these changes so far as they may effect the provisions of the plan . . ."

The immediate market reaction to release of the Commission's letter was sharply higher prices for the junior securities. This was based on the supposition that revision of the plan was made certain by the Commission's action. It is true that the chances of reconsideration of the entire case have been improved. But it is not entirely similar to the Missouri Pacific case and it certainly can not be taken for granted that the Supreme Court will grant certiorari and eventually remand the plan to the Commission. Nor can it be taken for granted that materially more liberal treatment is in store for the junior securities even if the case is reopened.

Within the framework of the capitalization provided in the present plan there is not too much room for liberalized treatment of creditors. The banks and the RFC have been paid off and they were to receive a total of $42,622,000 par value of new securities. Almost half of this, however, was to be in common stock and another portion in preferred stock. Only about $8,000,000 was in new fixed interest bearing securities and another $8,700,000 in income bonds. These securities, presumably, will be available for reallocation if the plan is remanded. However, since the date of the original plan the claims against the trust estate have increased by roundly $50,000,000 representing continuing interest accruals on the old bonds.

Another possibility for improved treatment lies in the use of treasury cash for settlement of some claims. The road now has net current assets of nearly $83,000,000 which is well in excess of working capital needs. In the past it has been suggested that excess cash might be utilized for purchase of bonds in the open market (at well below their claim) or through a call for tenders. There is considerable question as to whether the use of funds for that purpose would be legal while the company is still in arrears on interest payments to creditors. Presumably any attempt to take such action would involve lengthy court action. The money could be used, however, for payment of some back interest, which would result in a reduction in the aggregate of claims remaining.

The greatest potentiality for better treatment of existing securities lies in the possibility that in any reconsideration of the case the Commission will allow a larger capitalization than that called for in the present plan. In the first place, there is fairly general agreement among rail analysts that the plan was unduly drastic even under conditions as they existed when it was drawn up. Secondly, it is felt that recognition should be given to the particularly comprehensive rehabilitation program that has been undertaken by the trustees. During the last 10 years more than $115,000,000 has been spent on gross additions and betterments. In comparison to the money spent on the properties, and the remaining working capital of some $83,000,000, the new capitalization in the present plan is held to little more than $150,000,000. It is considered in most quarters that the Commission will recognize the increased operating efficiency expected to stem from rehabilitation of the properties when, and if, it revises the reorganization plan. If so, it should allow very appreciable improvement in the treatment of all creditors.

George McGhie, Jr., Is With Comstock & Co.

CHICAGO, ILL. — George W. McGhie, Jr. is now associated with Comstock & Co., 231 South La Salle Street, Mr. McGhie is an "old timer" on La Salle Street, having conducted his own investment business in the past.

George McGhie, Jr.

Carl E. Apponyi With Edgerton, Wykoff & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Carl E. Apponyi has become associated with Egerton, Wykoff & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Apponyi was previously with Bogardus, Frost & Banning and in the past was Manager of the Statistical Department for Banks, Huntley & Co.

Transportation and World Trade

By G. METZMAN*
President, New York Central System

Leading rail executive stresses factor of efficient and adequate transportation in world trade promotion. Points out burden on railroads in meeting heavy exports, particularly in coal and grain. Decries lack of coordination of nations' transportation facilities and warns nationalization of our railroads will mean complete socialization of U. S. industry. Scores inequality of treatment of rails, and says our transportation cannot survive "half slave and half free."

The need for maintaining a sound transportation system is as essential to our foreign trade as it is to our domestic commerce. Recently, the International Trade Organization, sponsored by the United States, met in Geneva, Switzerland, in an effort to adjust international trade barriers. This meeting recognized that cooperation among nations is essential to world economic stability. Continuing prosperity at home is assured only if there is a firm foundation for building prosperity abroad. A nation cannot long continue primarily to export, nor can it long continue primarily to import, without eventually bringing disaster upon itself. World trade must be a two-way street. As Sir Stafford Cripps, Britain's new Minister of Economic Affairs, has said: "We must export or die."

Gustav Metzman

Effect of Heavy Exports

America today is exporting about three times as much as it is importing. Until the countries abroad can revive their own production, America may still have to continue her large exports. The relation between decreased British production and increased American exports is well illustrated in the coal situation. Going back as far as the year 1910, we find that the largest quantity of coal mined in the United Kingdom was 287,430,473 tons in the year 1913. Of this amount they exported 73,400,118 tons. Ten years later they mined only about 276,000,000 tons, but exported over 79,000,000 tons, or more than six million tons above 1913. In contrast, it is estimated that during 1947 Great Britain will produce only about 195,000,000 tons of coal, and therefore will be able to export much less than in previous years.

Thus, in order to meet these deficiencies, America is increasing her coal exports. Since 1914 the largest tonnage of coal exported in any one year from the United States was in 1920, when slightly under 20,000,000 long tons were shipped. Virtually the same amount was exported during only the first half of 1947. At this rate, it is probable that the United States may ship abroad this year between 35 and 40 million tons, or about twice as much coal as was exported for any equal period of time in our history.

Our tremendous grain shipments abroad are further swelling the flow of our exports. And with the implementing of the President's food conservation program, these shipments probably will be further increased. Many of you, of course, are well acquainted with the large quantities involved, but the figures bear repeating. During the first six months of 1947, the United States exported over 5,800,000 long tons of grain. This is almost three and one-half times as much as the 1,700,000 tons shipped in the same period of 1939.

These life-giving shipments, necessary to help get the stricken countries of the world back on their feet, emphasize the great need for transportation teamwork in world trade—teamwork by the shippers and receivers of freight, teamwork among all agencies of transportation. While I am especially interested in rail transportation, I would be derelict if I failed to consider the relationship of railroads to the nation's broad transportation problem and its effect upon our national and international responsibilities. This problem, therefore, must be approached from the standpoint not only of what is good merely for one particular form of transport, but also what is good for attaining a well integrated system capable of furnishing efficient service to meet the needs of a growing nation and a troubled world.

Transportation's Spectacular Growth

In the last 25 years transportation has had spectacular growth; trucks and busses and the private automobiles have expanded their usefulness tremendously; inland waterways have been considerably improved; pipelines have been extended long distances; and the airplane is now a common carrier of freight and express as well as passengers and mail. Thus, the competitive situation among the various agencies of transportation is vastly different from that immediately following the first World War.

In 1887, Congress passed the Interstate Commerce Act primarily in the interest of the traveling and shipping public. Until then public transportation had been largely a monopoly; rebates were common; and there was little equality of treatment. But the Act corrected that situation. The job was well done. Now, however, the problem has taken another turn. Legislative protection is needed not only by the public but by the carriers. America should be more interested in seeing that it has an efficient transportation system than in seeing that preferential treatment is given to any particular transportation agency.

On three separate occasions Congress has recognized this problem, this need for transportation cordination. In 1935, it placed the nation's truck and bus operations under the Interstate Commerce Commission. In 1940, the domestic water carriers, and in 1942, the freight forwarders likewise were included. Thus, all commercial forms of transport are now under a single regulatory body with the exception of the airlines.

The Transportation Act of 1940 also recognized the need for fair and impartial regulation of all modes of transportation subject to the Act; and for the establishment and maintenance of reasonable charges without unjust discrimination; without undue preferences or advantages; and without unfair or destructive competitive practices.

On the other hand, the Civil Aeronautics Act of 1938 was designed primarily to encourage and develop an air transportation system properly adapted to the present and future needs of our foreign and domestic commerce, of our Postal Service, and of our national defense. This Act lays great emphasis upon air transportation as a single mode of transport without regard to the development of, or coordination with, other modes. The Interstate Commerce Commission is charged with the responsibility of developing a national system comprising several forms of transportation, while the Civil Aeronautics Board is required to consider the development of only one.

These Congressional enactments provide a conflict in our national transportation policy. They have similar objectives but no community of interest for attaining those objectives. Thus, they make it difficult, if not impossible, to achieve a transportation system which will provide the nation with the most efficient and economical service possible, at the same time insuring fair and impartial regulation of all modes on an equal basis.

Problem of Postwar Transportation

This problem of postwar transportation is now the subject of investigation under a resolution introduced on July 12, 1945 in the House of Representatives by Representative Clarence F. Lea of California, Chairman of the House Committee on Interstate and Foreign Commerce. In remarks before the House, Mr. Lea stated that: "Failure to provide legislative remedies to meet the needs of our transportation system or failure to focus the thought of leaders in the transportation field upon their own responsibility, apart from legislation, in meeting their postwar problems, can prolong by years the nation's period of reconversion to peace."

And in speaking of the various forms of transportation, Mr. Lea further said: "Each has its own economic problems; each is highly competitive with the others; yet each is a useful part of our transportation system. In the light of profound changes in the economy of this industry and its relations to the country, we must adjust legislation and administrative control to an entirely new set of conditions."

Thus, some members of Congress are well aware of this broad transportation problem. Indeed, Congress is confronted with a complicated problem of far-reaching importance. In addition to the individual problems of the railroads, the trucks, the busses, the water carriers, the pipelines, and the airlines. Congress must now consider the relationship among all of these mature agencies in the establishment of a national system of coordinated transportation.

Dangers of Nationalization

Railroads, of course, are only part of this transportation problem, but they lie as close to my heart as they do to the heart of industrial America. With few exceptions, the railroads of the United States and the Canadian Pacific in Canada are the only privately owned railroads in the world. Practically all others are government-owned and operated with taxpayers' money.

In Great Britain, the government is now engaged in a vast social experiment. The government has already taken over the coal industry, aviation, communications and banking. Now the program is to be expanded. On Jan. 1 next the government is planning to nationalize not only the railroads and all other agencies of transportation, but

(Continued on page 30)

*From an address by Mr. Metzman at the National Foreign Trade Convention, St. Louis, Mo., Oct. 20, 1947.

Definition of American Economy

By PAUL G. HOFFMAN*

Chairman, Committee for Economic Development

As criteria for defining American economy Mr. Hoffman lays down: (1) free play to legitimate incentives to create wealth; (2) the maintenance of competition; (3) team work in production and distribution; and (4) sound government actions in relation to business and fiscal policy. Proposes a program to reduce business fluctuations and outlines as objectives of government policy: (1) recasting of tax system; (2) wider coverage of unemployment compensation; (3) better timing of public works; and (4) wise management of credit and public debt.

Before attempting to define the American economy, I should like, first, to tell you what it is **not**, and, second, to suggest certain criteria by which, in my opinion, any economic system should be judged.

The American economic system is a form of capitalism. Therefore, in its fundamental concept it is the opposite of all systems in which the state rather than the citizens own the tools of production. It also differs sharply from the capitalism of prewar England, France, Germany and Italy. The capitalism of those countries was marked by state-protected cartels and monopolies. Our system differs even more sharply from that theoretical capitalism of Herr Marx, which exacts its unholy profits largely through enslaving and exploiting the proletariat.

Paul G. Hoffman

American capitalism is as American as baseball. Into its structure has gone the thinking of Washington, Jefferson, Hamilton, Franklin, Lincoln, Woodrow Wilson, and hosts of Senators and Congressmen. Business statesmen and inventors such as Morris, Eli Whitney, Cyrus McCormick and Thomas Edison, have made their contributions. So have labor leaders such as John Mitchell and Samuel Gompers. So have untold and unsung millions or ordinary workers and businessmen. Our system has been unchanging in its emphasis on freedom for the individual, on competition, on a more and more equitable distribution of created wealth. Never has it been static or fixed, but, rather, fluid and forward moving. It was vibrant with life in 1777, in 1877, and it is a vibrant living organism today in 1947.

The fact that American capitalism differs, not only from collectivism, but also from the traditional capitalism of Europe does not of itself, of course, give any measure of its merit. I suggest that because it is people who are important, that an economic system should be judged by what it does for people and to people.

Capitalism, Creator of Wealth

Specifically, how does it rate as a creator of wealth and a distributor of wealth, and how does it affect the opportunity of people as individuals to make maximum use of their capacities and to grow and develop socially, intellectually and spiritually as well as materially?

If the criteria which I have suggested are sound, then we can say with confidence that the record of American capitalism is noteworthy. No economic system has ever created so much wealth in so short a time, and in no other country since the beginning of time have so many people had such rich opportunities to make use of their capacities and to grow intellectually and spiritually.

A few statistics will tell the story. In 1900, we in the United States of America with approximately 5% of the world's population held 15% of the world's tangible wealth. In 1940, with 6% of the world's population, we held almost 50% of the wealth—and our wealth was sufficiently well distributed to make our standard of living the envy of the rest of the world.

Yes, we have every right to take deep pride in the record of American capitalism to date, but we should remember that there are still too many people whose incomes are low and whose opportunities are limited. Therefore, the progress we have made up to now should serve merely as a challenge to our generation to so improve the effectiveness of our system that it will yield ever-increasing opportunities for more and more of our people.

Assuming adequate natural resources, the dynamism of an economy depends substantially on the extent to which the potentialities of its citizens are realized, upon how much use is made of their inventiveness and resourcefulness, and upon how well they work together. We have worked together quite well here in these United States because team play is natural to Americans. We have worked hard and thought hard because there have been rich rewards for so doing and reasonable penalties for inaction.

Of course, the opportunity to use rewards and penalties most effectively lies in the field of private enterprise. Private concerns have greater latitude in offering incentives and in imposing penalties. The private concern can offer far greater incentive to its management and its employees. Because people are people, greater incentives call for the greater effort. That's why if we are going to keep our economy dynamic, private enterprise must continue to have the predominant role.

Capitalism and Economic Instability

A second major characteristic of our economy has been its instability. In the past century we have had 26 depressions, culminating in the great bust of the '30s. What makes our economy unstable? Why have we had to contend with the boom-bust cycle? The answer is simple. Instability in our economy results from instability in effective market demand. But the answer as to why market demand is unstable is not simple. It is very complex indeed. Market demand is the total amount that individuals, businesses, governments and foreign purchasers are willing and able to buy. The "willingness" and the "ability" are equally essential. No amount of money or credit or income would be large enough to assure adequate demand if individuals and businesses will not use it for consumption or investment. The ability to buy is indispensable and strongly influences the willingness — but ability to buy alone does not create demand.

The problems involved in the availability of money and credit are complex, but they are nothing compared with those which determine the willingness of customers and businessmen to spend and invest. Here we run directly into psychological factors. Paradoxically, this question of willingness of customers to spend becomes a more significant factor with every increase in our standard of living. When you give thought to it, the reason is obvious. If most of us are just barely able to earn a minmium living, we will have little choice as to what we buy or when we buy it. Our money will go for food, clothing and shelter. On the other hand, the more money we have beyond what we must use for basic needs, the more chance we have to choose what we buy and the larger the number of purchases which we can—and often do—postpone even if we have money in the bank.

What is true of the individual buyer is true of business. Business can also postpone many of its purchases. Businessmen will make investments in such capital goods only if there is promise of a reasonable profit; and when chances of profit are dreary, they are often put off even though ample cash reserves are on hand.

The amount of money available for spending beyond basic needs is far larger than most of us realize. It is estimated, for example, that in 1946 not less than $60 billion were spent for purchases which could have been postponed. If this spending had been withheld the country would have gone into a disastrous tailspin.

Must Reduce Business Fluctuations

It is against the background of these various factors which influence market demand that we must develop a program to moderate its fluctuations. The program must recognize, of course, the necessity of maintaining adequate purchasing power, but it must also take into full account the importance of giving individuals confidence in the continuity of their incomes, and

(Continued on page 47)

*An address by Mr. Hoffman at the 16th Annual New York "Herald Tribune" Forum, New York City, Oct. 21, 1947.

Philip H. Willkie Is Columbia Law Graduate

Philip H. Willkie, 27-year old son of the late Wendell L. Willkie, Navy veteran and probably the youngest bank director in the country, was among 97 students who graduated from Columbia's Law School Oct. 10.

Philip H. Willkie

A member of the board of the Rushville (Indiana) National Bank, Mr. Willkie holds three academic degrees — Bachelor's from Princeton in 1940; Master of Arts in History from Harvard in 1941 and LL.B. from Columbia. At Princeton University he was business manager of the Daily Princetonian and won the Walter Hope debate prize. He was also voted by his class as the most likely to succeed. At Columbia, Mr. Willkie worked toward the degree of Master of Business Science and served as President of his first-year class and was Chief Justice of the Campbell Moot Court.

Mr. Willkie recently declined an opportunity to run for Congress in Indiana because of his desire to establish himself as soon as possible in the practice of law.

Steel Industry and World Economic Conditions

By ERNEST T. WEIR*

Chairman of National Steel Corporation

Prominent steel producer denies aim of industry is to restrict capacity. Lays steel shortage to inordinate demand and to insufficient raw materials. Points out production is now at peacetime record. Holds government chiefly responsible for high prices because of inflationary spending and wage policy. Opposes reconstruction aid abroad, and sees lack of public confidence in French, British and other socialistic governments. Urges putting our own house in order.

It is a pleasure to be here for two reasons. First, you gentlemen represent the great automobile industry. No industries are more closely tied together than the automobile and steel industries. And in the steel industry, no company is more deeply and directly interested in the automobile industry than our own—as is evidenced by the location, down the river at Ecorse, of one of our most important divisions, Great Lakes Steel Corporation, which, as you know, is under the very able direction of your fellow Detroiter, my friend and associate George Fink, President of Great Lakes and also of National Steel Corporation, who is here with us tonight.

Ernest T. Weir

It is also a pleasure to be here because I have the privilege of speaking to a group of engineers. Throughout my working life, which covers quite a period, I have been dealing with engineers. On or off the job, I have always found them easy to get along with—and I am not yet quite sure whether it is because of or in spite of the fact that the engineering fraternity contains the world's greatest collection of practical, hard-headed men.

Whichever it may be, I say to you in all sincerity that the greatest need of the world today is the practical thinking and the practical action of practical men on its problems great and small. For too many years in too many countries, the direction of affairs has been in the hands of the other type of men — the impractical thinkers. The unfortunate results of their handiwork are repeated in a dismal pattern around the world, and the pattern includes our own United States.

Last month, I returned from a trip to Europe. It was not a long trip—just six weeks from departure to return, although I had been there a number of times before. I do not see how anybody can spend even a few days in Europe and not come back with a new and deeper appreciation of the fundamental American values, and of the immensely superior way of living which those values have made possible for the people of our country. The people of the United States—not just some of them, but all of them—are the fortunate few among the world's population of over 2,000,000,000 souls.

I have done very earnest thinking while abroad and since my return. Out of it has come some definite conclusions. The most important one is not new to me and won't be to you, but it has struck me with a new force. Reduced to a formula it would be this: The favorable condition of a country is in direct proportion to the kind and degree of freedom possessed by its people, or—to put it another way—in inverse proportion to the control exercised by the state.

Country after country has succumbed to the illusion that its condition would improve under state control of its economy. Some countries did not have far to go. Russia, the Balkans, and most countries of Central Europe, for as long as we know, have lived in subjugation to rulers of some sort. The standards of their peoples have always been low and are still low. Since the Middle Ages, in countries of the West, notably England and France, individualism has been a powerful influence. But socialistic ideas are now ascendant in those countries and are doing them no good, as I will show later in more detail. In our country, too, the theories and methods of socialism have gained support and a considerable application over the past 15 years. But here, thank heaven, the habits and attitudes of individual independence, responsibility, and initiative were so strongly fixed by long custom that our free, competitive economy has not been damaged beyond repair—provided enough of our people gest to work quickly enough on the repair job.

This fortunate circumstance, in my opinion, affords the rallying point for our country and the world. Through all its history, the United States has been a shining example of what can be accomplished by free men working in a free economy. The world needs the inspiration of that example today more than ever before. And in giving that example, I believe our country can give something of far greater permanent value than any immediate relief. It is our responsibility as individuals to do all we can to see that American government and life are conducted as a living refutation of the reactionary idea that individual freedom and the free competitive economy are not equal to the needs of modern society. As practical men, I know you will help find the practical ways to discharge that responsibility.

Against the background of this fundamental thought, I would like to discuss with you some practical aspects of our two industries, of our domestic situation, and of the relations of the United States with countries abroad.

Steel Industry Under Fire

As you know, the steel industry is under heavy fire. It is being criticized because it is not able to supply every ton of steel that is asked for. Mr. Reuther, of the automobile workers union, charges that steel companies have banded together to prevent an increase in production. Senator O'Mahoney recently said that the managers of the steel industry decided to increase prices rather than to expand production. Many voices have been raised from many quarters. About the only things their owners seem to possess in common is a distrust in private enterprise and a profound ignorance of the steel industry.

Admittedly, steel is in short supply compared with the current demand. What isn't? I know of no industry today that is abreast with demand. The spotlight shines with particular brilliance on the steel industry, of course, because steel is so basic. All other industries, in one way or another, depend on steel.

Now what are the facts about steel? The present situation is highly unusual. The demand for steel—the world demand—is the greatest in history, and the main weight of that demand is centered on the United States' industry. Much foreign capacity was destroyed in the war; much of the surviving capacity is not being operated at anything approaching full efficiency. The United States now produces more than half of the world's steel, compared with 38% before the war. Naturally, foreign countries try to fill as much of their needs as they can in the United States. In 1946, 6,800,000 tons of steel was exported compared with 2,800,000 tons in 1937. I do not now comment on the advisability of exporting this steel. I merely point to the obvious fact that every ton exported is a ton subtracted from the domestic market.

During the war many industries, like your own, changed almost completely away from their normal types of production. Inventories of the kinds of steel used in prewar production were wiped out. Since the war, as a result, steel consuming industries have been trying to do two things at once; meet the greatest demand for products in their experience—a demand that had accumulated throughout the war—and build up their inventories of steel to previous levels. In effect, there is a double demand for steel and it is evident that part of the demand—for inventory purposes—is entirely abnormal and will disappear as soon as the pipelines are filled. This has happened already with certain steel products.

Against this floodtide of demand for export, for domestic consumption, and for inventory building, the steel industry has produced a tremendous tonnage although—for reasons entirely beyond its control—it has not produced the maximum possible tonnage for which it has capacity. One reason is the serious shortage of raw materials—particularly iron and steel scrap. Scrap was short all the way through the war and the situation is now worse than ever. It is estimated that present scrap on hand is sufficient for only five weeks' operation, when normally there is a huge supply at this season to tide the industry through the winter period of low scrap collection.

Scrap Shortage

This scrap shortage is entirely attributable to the heavy exports of scrap that continued through the 1930's up to the very eve of war. At that time, others and myself warned the Federal Administration about this serious drainage of a vital resource and tried hard to have it stopped. We got nowhere. Harold Ickes, former Secretary of the Interior, later admitted to me that he also argued against the export of both scrap and petroleum, but likewise was unable to get the Administration to act.

From 1935 until the embargo late in 1941, over 18,000,000 tons of scrap were shipped abroad—most of it to Japan. If the industry had not been deprived of this scrap, there would now be a sufficient supply to sustain maximum operations and also provide the inventory to assure future production. Another reason for the steel shortage—beyond the industry's control—are the strikes and slowdowns since the war. These have cost the country another 18,000,000 tons of steel—the equal of 2½ months of full production. Through strikes, one ton of steel has been lost for every nine tons produced.

If we had been able to deliver to industry the steel that has been lost through raw material shortages and lost through strikes that were caused in large part by incredibly stupid government policies, I do not believe that there would be any particular shortage of steel today.

Production at Peacetime Peak Record

In the face of these disadvantages, what has been the record of the steel industry? I believe it is one that requires no apology. At the present time industry after industry that consumes steel is producing at a rate that equals or surpasses that of the best previous peacetime years. It is estimated, for instance, that the automobile industry will turn out about 5,000,000 cars and trucks in 1947. This output was exceeded substantially only in 1929—the automobile industry's biggest year. In addition, there are industrial firms using steel now which did not use it before the war because they were not in existence then, and there are many other firms which have increased in size and are thus using more steel. Putting these things together; realizing that 60,000,000 persons are now employed, you can come to but one conclusion: such great activity can be supported only by a very large flow of steel into industry.

That conclusion is exactly right. This year, the steel industry will produce more than 84,000,000 tons of ingots—by far, the largest output in any peacetime year. It is

(Continued on page 42)

*Address by Mr. Weir at a joint meeting of the Engineering Society of Detroit and the Detroit Section, American Society of Mechanical Engineers, Detroit, Mich., Oct. 22, 1947.

Canadian Securities

By WILLIAM J. McKAY

Through the murk of rumors concerning currency devaluation, a U. S. loan, and import restrictions, the first glimmer of a more constructive solution of Canada's U. S. dollar problem is beginning to appear. Recent reports from Ottawa now stress the value of a North American pooling scheme for European relief with a Marshall-"Abbott" plan replacing the wartime Hyde Park Agreement.

With the dawning of this practical type of thinking north of the border it is to be hoped that no further time will be wasted on any further blind-alley measures that would at best only serve as dubious palliatives. The present world economic crisis can be remedied only by the application of long-term planning, with, if necessary, a departure from strictly orthodox procedure.

Unlike the position of the war-ravaged countries of Europe, the Canadian situation does not require that the Dominion come cap in hand begging for external assistance. On the contrary, on a per capita basis, no country in the world has contributed more since the war in the endeavor to restore international commerce, and it is a direct result of her extraordinary efforts in this direction that Canada is placed in her present predicament.

In the absence of the Dominion's large-scale credits to Britain, France and other European countries the drain on this country's resources would have been still greater and the plight of the assisted countries would have been even more difficult to remedy. Canada, moreover, is uniquely situated to make further important contributions towards international relief and the rehabilitation of freer world trade, provided that U. S.-Canadian statesmanship can conceive a workable plan which will enable Canada's surpluses of food and material to flow into the requisite channels without further detriment to the Dominion's U. S. dollar position.

In addition to the galvanizing effect on the Canadian situation of the implementation of a Marshall-"Abbott" Plan, Canada has other important means of improving her exchange position. The tariff discussions at Geneva resulted in a virtual U. S.-United Kingdom impasse, but it is understood that the British dominions and notably Canada are now taking urgent steps to break the deadlock by making certain concessions on Imperial Preference. In this event, the Dominion would be in a strong bargaining position vis-a-vis this country with regard to the reduction of U. S. tariffs on certain Canadian goods.

The U. S. dollar crisis is also provoking Canadian consideration of means to derive a larger volume of exchange from existing exports. An inordinate amount of Canadian forestry products is now being exported in crude and unprocessed forms. Already restrictions are being contemplated on the export of wood-pulp and there is little doubt that Canada will eventually furnish the finished products at many times the present realized value. A vast new field is thus open to Canadian industry and with the enormously expanding utilization of wood in a variety of new industries Canada's colossal forestry resources take on a new importance. When consideration is also given to the huge quantities of building materials in the shape of asbestos and gypsum which are now exported in their crude state, it requires little imagination to perceive that Canada has hitherto realized only a fraction of the potential value of her domestic wealth.

During the week the bond market maintained its recently improved tone and the internals in particular made advances for the first time in the absence of a corresponding movement in free funds.

Canadian stocks continue to lag behind the New York pattern, but the paper section showed strength in view of the future new possibilities of this industry. The golds, in spite of the recent statement of the Minister of Mines regarding imminent relief, showed little investor enthusiasm, no doubt as a result of past disappointments in this direction.

Ralph Wetzel Joins Kebbon, McCormick Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Ralph L. Wetzel has become associated with Kebbon, McCormick & Co., 231 South La Salle Street, members of the New York and Chicago Stock Exchanges. He was formerly with Glore, Forgan & Co. and Paine, Webber, Jackson & Curtis.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND. — William A. Cresson, Irving M. Heath and Fount A. Morgan have become affiliated with Herrick, Waddell & Co., Inc., Merchants Bank Building.

Our Current Inflation and Monetary Problem

By M. S. SZYMCZAK*
Member, Board of Governors, Federal Reserve System

Asserting we are now facing crucial battle against inflation, Mr. Szymczak holds chief problem in preventing further expansion in money supply is restraining bank credit expansion. Says Federal Reserve is not in position to offset credit expansion because of its responsibility for maintaining government bond prices. Lays responsibility for restraining inflation on banks, and also stresses national debt management policy which would reduce bank holdings of negotiable government securities.

With little pause after fighting and winning the most costly war in history, we are now facing a crucial battle against inflation. This is not altogether surprising. It was necessary for us to create a huge amount of money in order to finance the war and at the same time to restrict the availability of goods and services for which the public would customarily use additional money. To complicate our domestic problem there is the necessity of helping to restore the productive capacity of countries whose populations and resources have been ravished by war.

M. S. Szymczak

My remarks to you are addressed primarily to the domestic phases of our inflation problem. Some weeks ago, in a paper, I reviewed the international phases of this problem with particular reference to Germany, a defeated enemy country. Here it is sufficient to say that the present economic difficulties of European democracy are inextricably entangled with our own problem. It would be foolhardy to deny that aiding in their reconstruction will amplify our own inflationary curve, but it would be equally foolhardy to assume that we can put our own house in order while large areas of the world are in chaos.

Without our own volition, we have been catapulted into a position of world leadership, and in the interest of our own stability and welfare, we must assume the responsibilities of this leadership. The greatest single antidote for inflation is increased production. Our own productive capacity is already running at full speed and the largest immediate reservoir of unused productive resources is in Europe. The answer to this part of our problem is clearcut. I know you will concur in my belief that we are qualified to take the measure of this problem and, in cooperation with other nations, to find constructive ways of helping devastated European countries to help themselves.

This hydra-headed problem of inflation cannot be mastered for all time by any single device or any single approach. But with a proper combination of effective policies we have reason to hope that we still can establish a lasting prosperity at home and contribute to enduring peace in the world.

We have been a little tardy in lining up our forces against inflation. Weary of the disciplines of war, we have been prone to rest on our oars and drift with the current. Inequities have already been worked on the recipients of fixed incomes by the arbitrary transfer of part of their purchasing power to classes benefiting immediately from rising prices. This process must be stopped if we are to avoid the cataclysmic consequences of a runaway inflation.

Extent of Price Inflation

During wartime, price and other controls kept our own inflationary forces under check, if not under complete restraint. It was not until after the lapse of these controls in the early summer of 1946 that inflation carried many commodity prices to new high levels. Essentially temporary shortages in supply have contributed greatly to successive spurts in the prices of many goods. The rising cost of living has necessitated widespread wage and salary adjustments that have raised production costs and justified many price increases. In many instances, however, price advances have exceeded increased costs and have helped to generate record profits.[1] The combination of these factors has entangled the economy in what appears to be an irresistible upward spiral of

Let us compare some of our current prices with those prevailing before the war. Corn before the war was selling at 45 cents per bushel, now it is $2.45. Hog prices were $6.75 per hundredweight, now they are $29.50. Cotton was 9 cents a pound and is now 32 cents. Lead prices were 5 cents a pound and now they are 15 cents. Southern pine lumber prices were $22 per thousand and now they are $80.

These are only examples of important primary commodities that have risen from 200 to 400% since pre-war days. In general, advances in prices of primary commodities have been much greater since the outbreak of war in 1939 than they were between 1914 and the peak of the post-war inflationary period in 1920.

The average level of all wholesale prices, including primary commodities as well as manufactured goods, is now 110% above the pre-war level and the retail prices of many goods have risen by almost the same proportion. Retail food prices have advanced by more than 100% and clothing and housefurnishings are up 85 to 100%. With rents up only 10%, the rise in cost of living shown by the consumers' price index is about 65%.

Prices were already high during the war and the early post-war period. When price controls were dropped last year, prices rose considerably further. Since June 1946 the average level of wholesale prices has risen 40% and the cost of living 22%. This spring prices showed signs of downward readjustment, but domestic and foreign developments since that time have resulted in another sharp upswing.

Inflation Problems

Our sharply inflated price levels are unstable elements in the nation's economic position and the higher prices rise, the more unstable they become. This is because disparities among prices develop with inflation and become greater and greater as inflation proceeds. Thus inflation begets inflation and in the process produces economic dislocations and distortions that bear the seed of ultimate collapse and widespread unemployment.

Let us consider some of the critical tensions that attend current inflationary developments.

Prices are becoming more and more dependent on buyers' demands, which in turn are dependent on other inflated prices. Inequities and discontent are multiplying. Consumption in some direcitons is being curtailed because the rise in prices is greater than the expansion in incomes. Price increases are making the problem of financing foreign aid and recovery particularly difficult. Foreign countries with limited dollar resources are finding the loss of purchasing power of these dollars a serious handicap.

While organized labor has been able to obtain wage increases to cover a part of the increase in living costs, the majority of consumers have been in a less favorable position. Consumers with relatively fixed incomes, especially those in the low income groups, are being forced to curtail their purchases of goods, to reduce current saving, and to draw heavily on accumulated savings. In short, they are fighting a losing battle against the cost of living.

It is important to recognize that the present upward price spiral reflects in part essentially transitory developments. These include the persistence of wartime disruptions in production and trade, deferred private demands for investment and consumption, a rapid expansion in credit extended by private organizations to business and consumers, and unusually large government expenditures for military purposes and foreign aid. Undoubtedly, too, the upward surge of prices is being pressed by speculative forces, but the extent of this speculation will only become evident after the cumulative force of these special transitory factors has been spent.

The higher prices rise in an inflation, the more widespread and severe the subsequent readjustments are likely to be. Inevitable readjustments will affect not only prices, but production, incomes, and employment as well. The uneven character of demand, together with the special and in part temporary character of supply, has already brought striking readjustments in price relationships.

The higher production costs generated by inflation are becoming imbedded in the price structure. This development foreshadows an eventual price level substantially higher than that prevailing before the war. Since inflations tend ultimately to end in collapse and deflation, it is probable that the price level established when the liquidation of inflation is complete will be sharply below peaks reached in the present upward spiral of prices.

Breaking the Inflation Circle

Clearly, a primary factor in the post-war price inflation is the increase of $160 billion in money and other liquid assets which occurred during the period of the war. This huge accumulation of money and liquid assets was the direct result of government borrowing to finance war. It was essential to winning the war.

At the war's end these monetary assets represented an enormous backlog of deferred demand for goods of all types, but particularly durable goods. As a consequence demand at current prices was far in excess of any

(Continued on page 29)

*An address by Mr. Szymczak before Fall Meeting of the District of Columbia Bankers Association, Washington, D. C., Oct. 20, 1947.

1 Cotton textile manufacturers, paper mills, lumber producers, automobile dealers and wheat farmers, to cite a few examples, are making several times the profit returns of pre-war years.

Decries Danger of Canadian Exchange Collapse

Mills, Spence & Co., Ltd. of Toronto, analyze present Canadian dollar exchange situation and point out available remedies. Says in past similar fears for stability of Canadian currency proved groundless.

In an extended analysis entitled "Canada and the American Investor," the investment firm of Mills, Spence & Co, Limited of Toronto, Can., explains the reasons for the spread in United States and Canadian prices for Canadian securities, and gives the basic facts relating to Canada's present exchange position, together with the methods open to deal with the problem. The full text of the statement follows:

Canadian internal Dominion, Provincial, Municipal and Corporation bonds for the past year have been selling at a discount in New York. During the past few weeks the discount has increased sharply as the following table illustrates. The bond selected, as an example, is an internal Dominion of Canada bond—3%, Feb. 1, 1962/59.

	Price in Canada	Price in N. Y.
July 5, 1946	104⅞	94⅞
July 12, 1946	104½	103
Dec. 12, 1946	104⅝	98¼
May 8, 1947	104¾	95
Aug. 8, 1947	104⅞	94¾
Oct. 2, 1947	104⅝	88½

The basic reason for the spread between these two sets of prices has been a feeling of uncertainty among a section of U. S. investors with respect to the stability of Canadian-United States dollar exchange. And with the recent increased publicity given to Canada's "dollar problem," the spread between Canadian and New York bond prices has been widened by a further drop in New York prices.

It would seem that too much investment activity has been based on opinions formed from broad generalizations on the subject and too few investors have acquainted themselves with the actual facts. The purpose of this memorandum is to briefly state the facts of Canada's exchange position, the methods open to Canada to deal with its dollar problem and the attitude of the Canadian Government as far as it is known. It is felt that with these facts placed before him, the American investor will have a clearer picture from which to form his own opinion of the value of Canadian securities.

Most generalizations on the subject state the case in this manner: In normal times Canada's overall international balance of payments is a favorable one but her balance with the United States is unfavorable and this debit is met by the credit balances she receives from other countries.

This general statement is true but if taken by itself without further investigation it is liable to result in erroneous ideas. If further generalization is continued along this line we might arrive at the conclusion that since most of the funds received from trading outside this continent cannot be converted into U. S. dollars, Canada is now in a position where she has insufficient U. S. dollars to meet her obligations in the United States and therefore the Canadian dollar is in a dangerous position. At this point it is essential to examine the facts of the case.

Canada's Current Account Balance of International Payments
(in millions of dollars)

With All Countries

Net Credit(+) or Debit(—)	1935	1937	1939	1946
Merchandise Trade	+206	+265	+193	+576
Non-Monetary Gold	+119	+145	+184	+ 96
Tourist and Travel	+ 53	+ 79	+ 68	+ 84
Interest and Dividends	—206	—226	—249	—238
Freight and Shipping	— 14	— 25	— 17	+ 77
Other Items	— 33	— 58	— 53	—137
Total Current Account	+125	+180	+126	+458

With the United States

	1935	1937	1939	1946
Merchandise Trade	— 14	— 72	—128	—430
Non-Monetary Gold	+119	+145	+184	+ 96
Tourist and Travel	+ 59	+ 84	+ 70	+ 83
Interest and Dividends	—166	—180	—193	—204
Freight and Shipping	— 14	— 23	— 15	— 66
Other Items	— 13	— 31	— 34	— 82
Total	— 29	— 77	—116	—603

The figures shown above indicate the items making up Canada's traditional overall favorable balance of international payments, and the chronic unfavorable balance with the United States. Statistics for war years have been excluded for the obvious reason that during such a period of international trade disruption, such statistics have little relationship to peace-time figures. As a matter of interest the overall favorable balance of trade rose steadily from $149,000,000 in 1940 to $1,723,000,000 in 1945 and the balance with the United States moved from an unfavorable balance of $292,000,000 in 1940 to a favorable one of $30,000,000 in 1945.

Canada's adverse trade balance with the United States during the first seven months of 1947 amounted to $572,800,000 and it is estimated the total for the year will amount to $900,000,000. The full amount of American dollars which the Foreign Exchange Control Board is expected to have to supply for the whole of 1947 is $1,200,000,000 and is made up of the following estimated deficits:

(in millions of dollars)

Trade	$ 900
Earnings of U. S. investments in Canada	200
Shipping freight and other items	100
	$1,200

To meet this, Canada is expected to receive:

U. S. dollars from U. K. as 50% payment of adverse trade balance	$ 350
Tourist traffic	150
Gold shipments to the U. S.	100
Trade with Europe and Latin America	50
	$ 650

This leaves an overall apparent deficit of $550,000,000 to be met from U. S. dollar reserves. This probable requirement for 1947 is safely covered by the amount of $1,244,900,000 being the balance of gold and U. S. dollars held by the Foreign Exchange Control Board at Jan. 1, 1947.

These are the facts. What are the outstanding points to be noted from them?

(a) Canada is basically a credi-

(Continued on page 25)

Moseley Underwriting SOHIO Common Offer'g

An investment banking group headed by F. S. Moseley & Co. has underwritten a new issue of 584,117 shares of common stock (par $10) of The Standard Oil Co. (Ohio) now being offered by the company to present holders of its common stock at the rate of one share of the new stock for each five shares of stock held. The new stock is being offered at $23.75 per share to holders of record at the close of business on Oct. 21, 1947. Rights to subscribe will expire at 3 p.m. on Nov. 5, 1947.

During the period of offering to stockholders the underwriters may offer shares of common stock from time to time at a price which may vary every 24-hour period.

Proceeds from the sale of the new stock will be added initially to the general funds of the company and, together with other available funds, may be applied to the payment of capital expenditures. Any balance thereof will be added to working capital to enable the company to meet the increased cash requirements of its operation resulting from larger volume of business and higher cost of inventory.

F. B. Stimson Now With Pennington, Colket

The New York Stock Exchange firm of Penington, Colket & Co., 70 Pine Street, New York City, announces that Frederick B. Stimson, Jr. has become associated with the firm. The company maintains offices in Philadelphia, Reading and Harrisburg, Pa., as well as in New York City.

NSTA Notes

SAN FRANCISCO BOND TRADERS ASSOCIATION

The Nominating Committee of the San Francisco Bond Traders Association has named the following slate of new officers:

President: Collins L. Macrae, Jr. (Wulff, Hansen & Co.).

Vice-President: J. B. McMahon (Merrill Lynch, Pierce, Fenner and Beane).

Secretary and Treasurer: Walter J. Vicino (Blyth & Co., Inc.).

Publicity: Louis Rich (Schwabacher & Co.).


Collins L. Macrae, Jr.


J. B. McMahon


Louis Rich

Board of Directors: Earl Thomas (Dean Witter & Co.), Houston Hill, Jr. (J. S. Strauss & Co.), and Conrad O. Shafft (Shafft, Snook & Cahn).

The new officers will be installed at a dinner party to be held the early part of November. The retiring officers of the Association are: Elmer L. Wier (Brush, Slocumb & Co.), President; John Buick (American Trust Co.), Secretary and Treasurer; James M. Stewart (Wilson, Johnson & Higgins), Frank Bowyer (Schwabacher & Co.), J. B. McMahon (Merrill Lynch, Pierce, Fenner & Beane), and Louis J. Spuller (Elworthy & Co.), directors.

Members of the Nominating Committee were: Richard Abrahamson (Weeden & Co.), H. Hodge Davidson (Merrill Lynch, Pierce, Fenner & Beane), and Jack Quinn (Stone & Youngsberg).

Kalb, Voorhis Wire to Baumgartner & Co.

Kalb, Voorhis & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, announce the installation of a direct private wire to the offices of Baumgartner & Co., Mercantile Trust Building, Baltimore, Md.

Mutual Funds

By HENRY HUNT

223 for the "Dow" in '48

The Editor of the "Chronicle" recently sent a questionnaire to twenty-odd leading mutual fund sponsors requesting their opinions as to:

(1) The level of the Dow-Jones Industrial Average one year from now.

(2) The approximate range of the Dow-Jones Industrial Average over the next 12 months.

By averaging the opinions or guesses received to date, we find that in October 1948, the "Dow" will stand around 204 but will hit 223 in the meantime.

The following table lists answers to the questionnaire in order of optimism:

Level of D.J.I.A. October 1948	Range of D.J.I.A. Next 12 Months
270	270-175
240	270-170
225	250-175
220	230-150
200	250-170
200	200-160
180	190-160
177	190-160
165	190-155
160	190-150
Average 204	223-163

It is easy to see that what makes a horse race also applies to the stock market. While we promised secrecy as to the names of the sponsors who submitted the above market estimates (and some of the answers were blind ones), we will tell you that the New York City sponsors were predominantly bullish but the Boston sponsors (only two replied) look for a see-saw affair over the next year with 175 representing a middle point for the stock market.

We admit that answers to a questionnaire such as the above prove very little but just to go on record, your correspondent is willing to play along with the consensus and pick 223 as his high for the 1948 market. On second thought, we'll shade it up to 225.

Distributors Group Favors Heavy Industries

"Economically, we are still in the third stage of the normal 'four-step' post-war pattern; according to the October report of the Investment Research Department of **Distributors Group.** This pattern consists of four stages: (1) hesitation; (2) a consumer goods replacement boom; (3) readjustment; (4) an extended capital goods boom. This time, while the steps have been followed, the third stage has been extremely moderate in degree but long drawn out in time.

"Because the capital goods expansion phase is still ahead of us, the heavy industries continue to be favored, in particular shares in agricultural, electrical, industrial machinery, railroad equipment and steel companies."

Cost of Food up 1 Cent

Hugh W. Long's October **"New York Letter"** points out that despite the sharp rise in the cost of food, in relation to 1947 incomes food looms little larger in the family budget today than it did before the war.

"In the years before the war, 1935-39, the average person spent 27¢ of each dollar of income for food. Last year the figure was 29¢ and it is doubtful if it is higher today by more than 1¢. This may seem incredibly small; one is tempted to say, 'My food costs are up more than that!' But thus far we have discussed food costs per dollar of income, and not total food costs. The fact is that the number of income dollars per person has increased from a $535 average in 1935-39, to $1,230 for 1946 and to a $1,370 rate currently. In other words, there are more than twice as many income dollars per person, and 29¢ out of each of the larger number of income dollars was spent last year to buy food, as against 27¢ out of each of the smaller number of income dollars in 1935-39. It is apparent that, on average, incomes have increased almost as much as food bills.

"It may be observed that the increase in food costs is not due entirely to higher prices. The greatly increased income has stimulated consumption; the average American eats more or better food than ever before. Meat is a good example. There is a general belief that the meat supply is low, yet meat consumption this year is running at a rate of about 155 pounds per person compared with a prewar average of about 130 pounds. Obviously, even had there been no increase in food prices, the average food bill would be up. Higher prices have hurt a minority of the consuming public whose incomes have lagged, but for the big majority, the ability to buy has increased notwithstanding current prices."

Notes

If you want 6% on your money, **Hugh W. Long's Diversified Investment Fund** and **National's Income Series** afford such returns in the present market based on distributions paid from net investment income alone during the past 12 months.

As of September 30, **Eaton & Howard Balanced Fund** reported net assets of $29,505,000 up from $25,816,000 at the year end. The portfolio is now diversified as follows: U. S. Governments—11%; Other Bonds 8.7%; Preferreds 25.2%; Commons 53.9%; and uninvested 1.2%.

Affiliated Fund, sponsored by **Lord, Abbett,** recently refunded its previously outstanding $5,000,000 of 2½% notes with an equivalent amount of 2% notes. Affiliated now has **$8,000,000** of borrowings outstanding, all at 2%.

During the three months ended September 30, **Incorporated Investors** added three new common stocks to its portfolio, namely, **Continental Oil Co.,** General Railway Signal Co., and Pepsi Cola Company.

Davis Hunter Scott Co. Office in Birmingham

DETROIT, MICH.—On Nov. 17, Davis Hunter Scott & Co., will open an office in Birminghan, Mich. which will be the firm's main office. The office in the Penobscot Building, Detroit, will be continued as a branch.

O'Connor, Weller & Co. Formed in Coral Gables

(Special to THE FINANCIAL CHRONICLE)

CORAL GABLES, FLA.—Bernard F. O'Connor and Arthur D. Weller have formed O'Connor Weller and Company with offices at 248 Andalusia Avenue, to conduct a securities business. Both were previously with A. M. Kidder & Co.

Schram Announces Plan of Increased N.Y.S.E. Commissions

Will submit to membership a proposal to readjust commission rates so as to increase gross revenue approximately 20%. James F. Burns, Jr., President of Association of Stock Exchange Firms, says increased commissions are essential if Stock Exchange is to serve public properly.

On Oct. 18, Emil Schram, President of the New York Stock Exchange, released the proposed new schedules of commission rates which were approved by the Board of Governors and which are to be submitted to a vote of the Exchange members for final adoption. According to a statement of Mr. Schram:

Emil Schram

"It is only after about a year of careful consideration and thorough study that the Board of Governors is now submitting to the membership of the Exchange a proposal to readjust our commission schedule in such a way as to produce an increase in gross revenue of approximately 20%. Our rates have not been changed since 1942. Since that time the cost of doing business has increased greatly. That the proposed increase is justified cannot be questioned." According to Mr. Schram, "member firms of the Exchange doing business in all parts of the United States have urged, as a matter of necessity, that this readjustment be made in order that increased costs may be made up to some extent. A great many of our member firms have made thoughtful suggestions to us; the Association of Stock Exchange Firms has done a great deal of work on the subject, and our own staff and Board of Governors have gone into the matter exhaustively. The revised commission schedule represents the best judgment of our industry. The proposed increase is a moderate one. It is, in my considered judgment, essential to the rendering of efficient service to the investing public."

Accompanying Mr. Schram's announcement, was a statement by James F. Burns, Jr., President of the Association of Stock Exchange Firms, endorsing the need for higher commissions. "Increased commission rates, for the purpose of offsetting, at least partially, sharply rising operating costs," Mr. Burns stated, are absolutely essential if the Stock Exchange industry is to serve the public properly.

"The Association of Stock Exchange Firms arrived at this conclusion early this year after exhaustive studies of the operating costs and revenues of member firms covering the period 1942-1946. These studies were made available to the New York Stock Exchange with recommendations that the commission structure be revised upwards."

Proposed Rates

The proposed schedule of commission rates is contained in the following notice sent to Exchange members by the Board of Governors:

To the Members of the Exchange:

The Board of Governors approved today, for submission to the membership for balloting, the enclosed amendment to Section 2 of Article XV of the Constitution, dealing with commissions.

Non-Member Rates—Stocks

The amendment provides for a conversion from a rate per share basis to a money involved basis on stocks selling at 50c per share and above. It provides for an estimated total over-all increase in commission revenue of approximately 20%. The new rates which would be graduated according to the amount of money involved in a single transaction aggregating not more than 100 shares, would be

First $100	6%
$ 100.00 to 999.99	1% + $ 5
$1,000.00 to 3,999.99	½% + $10
$4,000.00 and above	1/10% + $26

When the amount involved in a transaction is less than $15, the minimum commission shall be as mutually agreed; when it is $15 or more, but less than $100, the minimum commission shall be 6% of the sum involved; when the amount involved is $100 or more, the minimum commission charge shall not exceed 50c per share but, in any event, shall be not less than $6 per single transaction.

The commission on an odd lot transaction would be computed the same as for round lots, but would be reduced by 10%, except where the 6% or $6 minimum or the 50c per share rate applies.

No change is proposed in the rates on stocks selling at less than 50c per share other than in the minimum transaction commissions.

Examples of the computation of commissions are available at the Exchange. (Room 1109, 20 Broad Street.)

Member Rates — Stocks — Clearance Commissions

There is no proposed change in clearance commissions on stocks selling under $20 per share. On stocks selling between $20 and $50 per share the rates would be fixed at 6c instead of 5½c; on stocks selling between $50 and $100 per share the rates would be fixed at 6½c instead of 6c; and on stocks selling at $100 per share and above, the rates would be fixed at 7c instead of 6c.

Member Rates — Stocks — Give Up Rate

There is no proposed change in give up rates of commission in stocks selling under $20 per share. On stocks selling between $20 and $50 per share, the rates would be fixed at 3c instead of 2¾c; on stocks selling between $50 and $100 per share the rates would be fixed at 3¼c instead of 3c; and on stocks selling at $100 per share and above, the rates would be fixed at 3½c instead of 3c.

It is estimated that the new clearance and give up rates of commission will produce an increase in member commission revenue of approximately 6%.

The proposed commission increases described above appear to be justified by the very substantial increase in the costs of doing business which has occurred since 1942.

ROBERT P. BOYLAN,
Chairman of the Board
EMIL SCHRAM,
President

Earl E. Taylor Now With Cruttenden & Company

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—Earl E. Taylor has become associated with Cruttenden & Co., 204 South 17th Street. Mr. Taylor was formerly with Harris, Upham & Co., and H. O. Peet & Co.

More of a Price than Production Boom

By GEORGE L. MEYER, JR.*
Vice-President, Stewart-Warner Corporation

Warning we are in more of a price boom than a production boom, Mr. Meyer advises caution in forward buying. Says continuing rise in food prices and in wages is an unhealthy condition, but sees no likelihood of drastic drop in prices because of aid to Europe and government stockpiling of critical materials. Looks to exceedingly heavy crops in 1948 at lower prices as a corrective.

In the latter part of 1946, early in December, as a matter of fact, we were very much concerned about the coal strike and its effect on our business structure. As the year end approached and we took stock of what we had accomplished during that year, we were pretty well satisfied; but we were faced immediately with the forecasting of what conditions would be during 1947.

George L. Meyer, Jr.

Our management then felt that the keynote of our thinking for the immediate future should be caution. We felt that the pipelines in many industries were filling up. Real estate sales then, that is at the end of 1946, were slowing up. In spite of the much advertised housing shortage, people were reluctant to pay fantastic prices for houses. Department stores were again advertising sales—fur prices were down 35 to 50%. We were worried about what labor would do. It was still difficult to obtain many materials. Publicity was beginning to be given about the black markets in steel. On one hand we were concerned about getting materials to keep our plants operating; on the other, our need for balanced and conservative inventories.

We began to plan then on lessened activity; began to watch our commitments; began to reduce inventories. But business continued to move up. Business activity in general reached a peak during March. One of the plants under my direction reached its peak in May—another in September. Our estimate or guess, if you want to call it that, on business for 1947 was made on a conservative basis.

*An address by Mr. Meyer at the District Three Conference of the National Association of Purchasing Agents, Milwaukee, Wis., Oct. 15, 1947.

Additional commitments for purchased items, tied in with actual sales and sales forecasts, were carefully made as the year progressed.

You men have asked what is ahead of us.

While it is true that business activity in general has receded from its March peak, reaching a low in July, it picked up considerably during August, and preliminary figures for September indicate still further improvement. This applies to both durable and non-durable goods generally.

Industrial incoming orders, moving up from a low at the end of the war to a new high early in 1947, dropped quite rapidly from this spring peak. However, within the last several weeks they have been moving upward at an accelerated pace. Order backlogs are in some instances again moving upward.

There is no need to point out the many changes which have already occurred in the major industries. Surpluses with lower prices on some commodities, even though few, and unfilled demand with higher prices on others. These facts are known to you. They vary from industry to industry. What you men buy and use undoubtedly will fall into both classes. The NAPA Bulletin, especially, coupled with trade papers you undoubtedly regularly read, keep these changes before you. An excellent summary of changes in the price trend, particularly, is covered very well by the monthly commodity price trends by McGill in the Sept. 24 issue of the NAPA Bulletin.

Question of Inventories

A statement was made very recently by the head of one our very large merchandising companies to the effect he was fearful that perhaps his buyers had been too conservative in committing themselves for future deliveries and dropping their inventories to too low a level. He felt that some of his buyers, in driving too sharp a bargain, might have jeopardized their positions. Perhaps the source with whom they had contracted, because of rising costs might determine to sell their output at higher prices to other customers. This of course would not be done by a reliable vendor; nevertheless, this very capable head of a large organization felt some concern about it.

Exports, as you who have followed the figures at all know, have been moving downward. The decline, starting particularly with the month of June continued into July, but with no further appreciable drop in August. Whatever your views on the international picture, whatever they are on the Marshall or a similar plan, there is no question but what the amount of money voted to support—or we might say, "Revive"—European economy will, to a great degree, influence our export picture. Their requirements for food, farm products and fertilizers, as you who read the press know, run into tremendous figures. It is hard to determine the truth as to the food shortage in Europe. On one hand we have the views of many Congressmen who are just now returning. Some say there are no shortages. On the other hand, the Chairman of the board of our own company in going through Germany just a few months ago, saw people picking up the individual grains of wheat which had been left in the field after the harvesting equipment passed through it. You know the Administration's viewpoint on this subject, as expressed in President Truman's radio address of Sunday, Oct. 5. On iron and steel alone,

(Continued on page 31)

International Bank and Increased World Output

By ROBERT L. GARNER*

Vice-President, Int'l Bank for Reconstruction and Development

Though asserting International Bank can be of constructive influence in promoting sound economic and financial measures, Mr. Garner stresses serious limitations on bank's activities due to its limited resources and borrowing powers. Says present situation is more acute than foreseen, and European difficulties cannot be solved by loans from America. Sees Paris Plan as forward step toward recovery but warns international trade barriers and fear of war must be removed before recovery can come.

I shall tell you something of the operations and policies of my institution, The International Bank for Reconstruction and Development, and discuss its relationship to the problem of rebuilding production, trade and financial stability in Europe. I shall also touch on the related subject of development of some of the resources of other parts of the world.

Robert L. Garner

The Bank is now an operating institution and I believe that it is proving to be an example of practical international cooperation. After considerable delay it is now performing the work for which it was created, the making of loans for productive purposes. Our Second Annual Governors Meeting was held in London last month and was attended by the Finance Minister or some comparable official of each of our 45 member nations. This stockholders' meeting was handled expeditiously, carried out its scheduled program of formal action, and provided an opportunity for useful informal discussion and exchange of views.

Our directors, now 13 in number, have been giving conscientious and intelligent attention to the work of the Bank, acting on matters of policy, loans and other major problems quite in accordance with the general role of corporate directors. These men of different nationalities and diverse interests and viewpoints have given splendid backing to the management and there has never been a formal division in the board on any question on which it has acted. This is not to infer that there are no differences of opinion. We have frank and sometimes spirited discussions and a thorough consideration of various points of view, but up to now it has always been possible to arrive at decisions which have received the full support of the board.

Our staff now consists of about 370 men and women of 20 different nationalities. They include a remarkable diversity of training and experience who are working together with businesslike efficiency. As you know, John J. McCloy, formerly Assistant Secretary of War, assumed the Presidency in March and I became Vice-President and the General Manager.

Loans Made by Bank

Since May of this year the Bank has made four loans—$250,000,000 to France, $197,000,000 to the Netherlands, $40,000,000 to Denmark and $12,000,000 to Luxembourg, a total of $497,000,000. These loans are for the purpose of supplying equipment and materials to increase production. They are providing urgently needed supplies and should be of substantial aid to the borrowers in building up their output of goods.

We have provided for close supervision in the disbursement of funds, making payments only against carefully checked documents. Furthermore, our representatives in the borrowing countries are closely checking to insure that the goods purchased with our funds are actually used for the productive purposes agreed upon. In this manner, we are taking care to avoid some of the unhappy experiences of certain foreign lending in the past whereby proceeds of loans were used for non-productive purposes or otherwise diverted.

One of the interesting elements of our loans are provisions that the Bank be supplied with a flow of pertinent information regarding the economic situation and developments in the borrowing countries and for continuing consultation between the governments and the Bank on financial and economic matters. I am frank to say that it was not easy to get these principles of supervision and consultation accepted in our earlier negotiations. However, they have been accepted on the sound ground that the Bank is a cooperative international institution in which the borrowing members have both a financial interest and a voice and that the Bank can therefore properly exercise these functions without infringement on the national sovereignty.

Discussions on Economic Plans

We are now in various stages of discussion with other member countries regarding their economic and financial plants. It is our belief that we can be of practical assistance to many of our members in the study of their economic problems and in helping to develop realistic programs of reconstruction and development. In general, it will be our policy to assist in the diagnoses of problems and the development of broad plans. As to the detailed working out of such plans, such as a revision of the tax structure or the development of a power project, we will be prepared to advise the member government on the selection of private technicians, engineers or other experts.

Without taking time to go further into this aspect of our operations, I can summarize by saying that it is our hope that the Bank can be a constructive influence in promoting sound economic and financial measures and that it can supply practical aid and advice with respect to both policies and techniques.

On the other hand, it is essential that we recognize the Bank's limitations. There has been much misconception that the Bank has $8 billion of funds at hand out of which to make loans. The facts are these: The subscribed capital of all the 45 member nations does add up to something in excess of the equivalent $8 billion. However, only 20% of this is paid in or ever will be paid in for the purpose of making loans and of this paid-in capital only about $725,000,000 is in United States dollars. This is significant because, as I am sure you realize, the present demand is almost entirely for dollars to buy goods primarily in the United States. Furthermore, we can lend our capital only with the consent of the nation whose currency is involved. Today, unfortunately, there are few countries other than the United States which are in position to give such consent. With the exception of the equivalent of $2,000,000 of francs made available out of its subscribed capital by Belgium to cover the purchase of railway equipment by Luxembourg, all of the loans that we have made up to date have been in United States dollars.

In order for the Bank to obtain additional dollars for the purposes of lending we must sell bonds to private investors and, under existing circumstances, predominantly to investors in the United States. As you may recall, we sold our first issue of $250,000,000 of bonds in July.

The bonds of the Bank have behind them, of course, all of our assets, including our loans and the unqualified right to call upon all of the member governments for the unpaid 80% capital subscription. We have tried to make it abundantly clear, but it bears repetition, that in the event it is needed to meet the bank's obligations, the U. S. Government is committed up to a total of $2½ billion, irrespective of whether the guarantee is met by any other member nation. Thus, up to this amount, the bonds of the Bank are covered by the full faith and credit of the United States. Without in any way inferring that the obligations of the other members will not be effective, we recognize the fact that at the present time the American investor is looking primarily at the protection provided by the obligation of his own government. Based on this obligation, it is now possible for the investor in America to make his funds available for world reconstruction and development with adequate protection.

Limited Resources

We are conscious of the question in many minds as to whether the Bank will have resources sufficient to do its proper job. In this connection, it was an obvious misconception to believe that any one institution could provide all of the funds necessary to repair the damages of war and develop the untapped resources of the world. Furthermore, we must recognize that the present situation is more acute than could have been foreseen when the Bank was created at Bretton Woods in 1944. Not only was the physical destruction greater than was realized, but the dislocation of production, trade and the very life of hundreds of millions of people has been more profound and widespread.

Recovery would have been difficult enough if, when the fighting ceased, the world could have united in its efforts for recovery. Instead, there is a deep and virulent division, with the Soviet bloc in opposition and hostile to almost every effort which is being made outside its area to rebuild productivity, trade and stability.

And, finally, much of the current disappointment at the pace of recovery, including criticism in some quarters of the limited amount of loans made by the Bank, arises from the fact that many hopes were too high; that it was too much to expect that it would be possible to foresee and provide for quick recovery from the most destructive war in history. We should not lose sight of the fact, which Tom McKittrick has mentioned, that it took seven or eight years after World War I for Europe to reach a reasonable

(Continued on page 36)

*An address by Mr. Garner at the 34th National Foreign Trade Convention, St. Louis, Mo., Oct. 20, 1947.

Inflation Problem More Serious

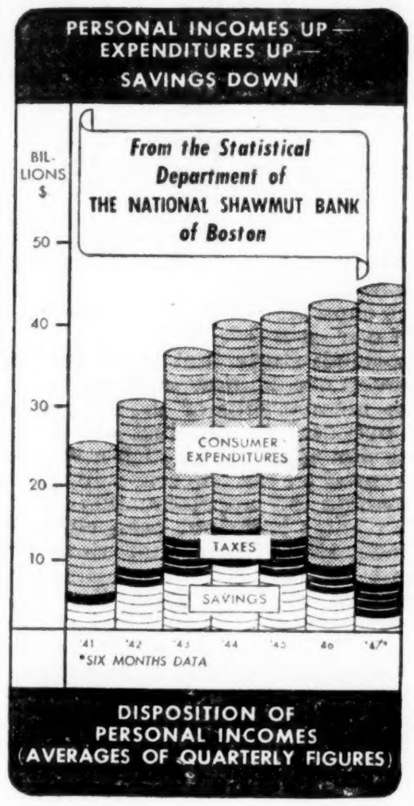
Walter S. Bucklin, President of National Shawmut Bank of Boston, points to factor of rising personal incomes and reduced savings.

"The problem of inflation is becoming much more serious," says Walter S. Bucklin, President of the National Shawmut Bank. In an analysis of the disposition of personal incomes based on averages of quarterly figures, he said, "Supplies of most goods in the market are improving greatly, but these gains continue to be more than matched in many lines by increasing demands. People are spending more money than they ever have before. Although people's incomes, even after taxes, are bigger than they ever have been in the past, people are increasing their spending more rapidly than their incomes are going up. As a result, they are saving less and there is a strong upward pressure on prices.

Walter S. Bucklin

"While some of this decline in saving and increase in spending is, of course, due to the fact that prices have already risen and more goods are now available, the decline in people's willingness to save money is also adding substantially to the inflationary problem we are facing.

"A new series of figures on personal income has just been released by the U. S. Department of Commerce. These figures show that in each year since 1941, people's incomes, even after taxes, have been greater than in each previous year. Since 1944, however, the amount saved has persistently fallen off. Even though incomes for the first six months of 1947 are running 16% above the rate of income in 1944, people are saving only one-third of the amount they saved in 1944."



The Importance of Foreign Trade

Prominent St. Louis banker, in addressing Foreign Trade Convention, says too much emphasis cannot be placed upon necessity for more imports.

W. L. Hemingway, Chairman of the Board of the Mercantile-Commerce Bank & Trust Co. of St. Louis, Mo., in a welcoming address before the 34th National Foreign Trade Convention at St. Louis on Oct. 20, stressed the importance of foreign trade as a factor in maintaining our prosperity. In his remarks, Mr. Hemingway stated: "There is another fallacy that has acceptance in many quarters, namely, that foreign trade is a small and therefore an unimportant part of our whole volume of trade. Of course, you know the error of that and anyone who will follow your proceedings here must conclude that for lasting prosperity here, foreign trade must be maintained. While the figures of our foreign trade show it to be a small fraction of the total, many companies do the greater part of their business abroad and to many others the foreign orders are necessary to their successful operation. And in agriculture, foreign markets are essential to the maintenance of farm prosperity.

W. L. Hemingway

"Non-discriminatory, multilateral world trade has been the slogan of this organization for a long time, and despite the many obstacles that still stand in the way of its realization, the efforts to reach the goal will not be diminished because we know that it will do more to preserve peace in the world than any other one thing. And along with this and a part of it is the necessity for the people of this country to realize that we must import more if our exports are to continue in good volume because in the last analysis they can only be paid for in goods and services.

"Too much emphasis can not be placed upon the necessity of more imports because it is not easy for an exporting country living behind high tariff walls to change its habits of thought. But as the world's great creditor nation and also the one with the greatest output from its farms and factories, means must be found to permit other countries to pay for the goods we export.

"These facts about world trade are axiomatic with you, but are not well understood by the public. So you see, this convention will not only be beneficial to you in attendance, but also will be most helpful in making clear to the people generally, subjects about which they are very much perplexed."

With Mitchell, Hutchins

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—James Hoffman has become connected with Mitchell, Hutchins & Co., 231 South La Salle Street, members of the New York and Chicago Stock Exchanges. He was previously with Doyle, O'Connor & Co.

With Freehling, Meyerhoff

(Special to THE FINANCIAL CHRONICLE)

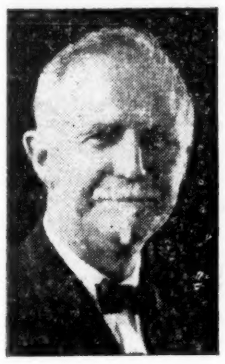
CHICAGO, ILL.—Paul W. Linstrom is now with Freehling, Meyerhoff & Co., 120 South La Salle Street, members of the New York and Chicago Stock Exchanges.

Providing for Families

By ROGER W. BABSON

Mr. Babson stresses importance of Estate Planning as factor in reducing "booms and busts." Points out value of planning to physicians, lawyers and farmers. Advises setting up irrevocable trusts for family protection.

To those who are troubled about the financial outlook, I want to say that only as more families adopt careful Estate Planning will our nation reduce its "booms and busts." In other words, for every additional family providing for the future, the "booms" will be less dangerous; and the "depressions" will be less severe. I feel very certain about this.



Roger Babson

We give too much time to business and too little to our children. A busy executive gives almost no time to thinking of the future which is to be a very essential part to his later-life development. Also think of the farmer or businessman who has been pouring all his profits back into the farm or business. He sells out and finds himself with a grand bank balance, but no income until he puts his money to work. He has to sit down and do some very serious thinking. His entire future depends on it.

Then there is the widow with responsibilities left on her shoulders for which she is not prepared. How best in a short time can she get basic knowledge of the essentials in management of her affairs? The answer is to read such books as her local banker will recommend or attend such a college as I and my friends have opened at the "Center of the U. S."

Doctors Need "Check Ups"

Then there is the medical man, whose prime interests are far removed from the financial world. His success in his profession is largely due to his one-sided interest in it. But he runs into a problem. He must take a little pause, in order to conserve what he has accumulated and arrange his affairs to good advantage. A short course in Estate Planning is what he needs. These doctors are always "checking up" others but seldom take time to check up themselves physically or financially.

If you are a beneficiary of a "trust," you may have all the confidence in the world in the men who are handling things, but it is my advice that you also get enough investment training so that you can intelligently watch them. **Trust beneficiaries who often consult with their Trustees get the best service.** Trustees usually are very glad to discuss such matters if they feel you understand what you are discussing. Books and classes exist to help people get such training.

Advice to Lawyers

Lawyers are often made custodians of estates and get very well paid for such work. How much time are such busy men giving to the study of investments? Lawyers want their doctors and dentists to attend summer classes to keep up to date. Lawyers should be fair to their trusting clients and give the financial side of their training continuous post-graduate study.

Lawyers are so pressed with detailed work which they must do, that they seldom take time to present new throughts to their clients. Busy lawyers are not good salesmen of their own wares. They seem to hesitate to suggest to clients that they revise their wills, form trusts and plan their estates intelligently. Yet these things are far more important for the clients' families than the detailed legal work upon which their time is mostly spent.

Warning to Farmers

I have just visited the wheat country where farmers are reaping much wealth. They are getting more money than they ever dreamed of, but have no knowledge of what to do with it. As a result, this Central West is now infested with "get-rich-quick" promoters. They are trying to get away from the farmers their hard-earned money, much of which the farmers will need to draw upon when low prices and poor crops come again—as they will.

My advice is that after getting out of debt you spend one-third of your profits on improvements, one-third put in government bonds or cash for "the day when it doesn't rain," and then use the other one-third to start an irrevocable Trust for your family's protection. Regarding this consult —not your "dentist" as the radio talks about—but your lawyer and bankers. They are should be visited every six months!

Southeastern Group Of IBA to Meet

BALTIMORE, MD. — The Annual meeting of the Southeastern Group of the Investment Bankers Association of America will be held on Oct. 24 at 6:30 p.m. at the Maryland Club, Baltimore. The Group is holding a dinner meeting this year in order to entertain Edward Hopkins, Jr., Drexel & Co., President of the I. B. A. Following the dinner and regular business meeting, Mr. Hopkinson will address the group.

Cost of the dinner will be $2.00 per person and reservations should be made with W. Carroll Mead, Mead, Miller & Co. Attendance will be limited to partners or officers of firms and heads of departments of member houses.

The following nominations have been made for officers of the Southeastern Group to be voted on at the annual meeting:

Chairman: George D. List, Robert Garrett & Sons, Baltimore.

Vice-Chairman: James H. Lemon, Johnston, Lemon & Co., Washington, D. C., and Joseph W. Sener, Mackubin, Legg & Company, Baltimore.

Secretary - Treasurer: W. Peyton May, Investment Corporation of Norfolk, Norfolk, Va.

Also appointed for election to the executive committee in addition to the officers, are: Allen C. Ewing, Allen C. Ewing Co., Wilmington, N. C. (for three years); Richard P. Dunn, Auchincloss, Parker & Redpath, Washington, D. C. (for two years to fill the unexpired term of W. Peyton May); and John Redwood, Jr., Baker, Watts & Co., Baltimore, (for one year) ex-officio.

The nominating committee consisted of James P. Nolan, Folger, Nolan, Incorporated, Washington, D. C., Chairman; Edward C. Anderson, Scott & Stringfellow, Richmond, Va.; and John Redwood, Jr., Baker, Watts & Co., Baltimore.

Three With H. C. Robinson

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Charles H. Kaman, Charles Kirchner, Jr. and James F. McAvoy, Jr. have joined the staff of Henry C. Robinson & Company, 9 Lewis Street.

The Current Economic Scene

By WILLIAM A. IRWIN*

Economist, American Bankers Association

Dr. Irwin, asserting this country is in throes of inflationary boom, points out customary yardsticks of value have become obsolete. Denies monopoly or speculation has been cause of high prices, and lays inflationary tendency to terrific pressure of short supply of goods. Says labor is in monopoly position and "full employment" is inflationary. Expects serious readjustments, whether depression comes or not.

There have been but a few times in the economic history of the United States when any banker was faced with conditions such as paralleled those of today. It is quite generally admitted, even by government officials, that this country is in the throes of an inflationary boom; and any one who knows the facts is well aware that this domestic boom is only one segment of a world-wide inflation which is so serious in some countries that there can be only one outcome for them, namely, economic chaos and financial reconstruction. This is true, certainly, of China and of Greece, and is probably true also of Italy and of several other countries. Such a universal phenomenon has never existed before within the memory of any living banker, and perhaps has not previously occurred. It is within the conditions of such a world that the banker must currently operate, whether he be a savings banker, a commercial banker, or an investment banker.

William A. Irwin

The problems that this poses, especially for the officer who is responsible for the investment of funds, are manifold. All the customary yardsticks of value have become obsolete. This applies equally to the prices of commodities, to the wages of labor, to the value of real estate, both urban and rural. Profits, in some lines of business at least, have gone through every recorded ceiling. The only thing that has had its price remain comparatively steady is the use of money, and this is the case only because that price has been very effectively influenced, if not actually fixed, by conscious and deliberate government controls.

The prospect, if there should be a series of crop failures, is disconcerting. If a serious slump in economic activity should develop, it would tax all our ingenuity to adjust ourselves to its consequences; and if another war should come soon, its economic effects could be utterly appalling. In the face of such possibilities, there is need for sober thought, for calm judgment, and for unusual caution.

Every banker in America is well aware of the primary cause of this condition. It was brought about by the expansion of credit needed to finance World War II. No blame need be assessed for that expansion. It was necessary. Without it, the war could not have been fought and won. But there have been secondary causes, and it is the assessment of the responsibility for these causes that is a current topic in many circles. Let us take a careful and an honest look at them and try to place a proper estimate on them.

Monopoly and Speculation "The Goat"

It is the customary practice in this country to seek a "goat" when things go awry. The time-honored goat is monopoly. To some extent, monopolies undoubtedly have been to blame in the past for the "rigging" of prices. Examples of this are too well known to call for citation, and only one who is either ignorant of the facts or an incurable monopolist would even attempt to question or refute the record. But in the present situation, the undeniable facts seem to give the lie to much of the accusation. No sensible man needs to be told, for example, that the automobile industry — which has "administered" prices, if not a monopoly—could ask much higher prices for cars than it is doing, and get them. The shortage of cars and the effective demand existing for them could be combined so as to demand "all that the traffic will bear." But that is simply not being done. Even where effective monopoly conditions do exist the same thing is demonstrably true. Apparently the monopolists at this time are showing discretion in their pricing policies either through fear of controls, through dread of possible economic consequences, or for some other reason, so we may justifiably dismiss manipulation of prices by them as an important secondary cause of our current inflation.

Another of the time-honored goats is "speculation," especially speculation in commodities. It cannot be successfully asserted, however, that legitimate speculation fails to serve a useful purpose in an economy like ours. Once again the record is quite unassailable. It is only when "outsiders" —pure gamblers— get busy in the commodity markets that real trouble arises. Many of them actually do come into the market, in times of shortages especially, and try to operate on a "shoe-string." In doing so, they bring the legitimate trader into disrepute. The general tenor of the evidence seems to indicate that such a condition does exist at present and is partially responsible for the extraordinary behavior of certain grain markets. To the extent that this is true, we have one of the clues to our situation pricewise, and it is the unfortunate fact that this lies largely at the base of our high cost of living. Furthermore, since this is so, it partially accounts for the recurring demands of labor for increased wages, while these increases, in turn, push up costs and lead to further increases in prices. Therefore, if we can accept at face value such evidence as we have about speculation, we are forced to lay some of the blame for current inflation on the shoulders of the speculators. What effect the latest increase in margin requirements will have on this situation is still a moot question, though its first and immediate results seem to show some limited promise.

Renewed Demand for Price Controls

In light of all the facts about inflation, it would be strange indeed if there had not been some demand for the reimposition of price control. That demand is with us now. It comes not only from consumers and from labor leaders, but also from some lines of business. Experience with such controls during the war lies at the root of this demand. In some cases, the controls were effective; on that point, there can be no difference of opinion. But they were cumbersome and annoying, and they brought with them the development of black markets and other features that were thoroughly undesirable; they had the effect of shifting needed goods from one consumer to another who could afford black market prices; they developed a bureaucracy that

(Continued on page 40)

*An address by Dr. Irwin before the Convention of the Savings Banks Association of the State of New York, Lake Placid, N. Y., Oct. 10, 1947.

Sterling as International Currency

By PAUL EINZIG

Dr. Einzig, commenting on British desire to maintain sterling as an international currency, contends it will be of no advantage, since international role of sterling and London as banking center has always been a liability. Says foreign balances have placed Britain in delicate banking situation as indicated in 1931 withdrawals, and denies Britain attained international commercial position because of role of sterling as international currency.

LONDON, ENGLAND—In a recent public speech Chancellor of the Exchequer Dalton reaffirmed his desire to maintain and strengthen the role of sterling as an international currency. This is in accordance with the views expressed day after day by writers and speakers, Conservatives, Liberals and Socialists alike. That it is of vital importance for Britain that sterling should play such a part has come to be regarded as axiomatic. It is a universally held view that Britain stands to benefit substantially from the use of sterling as an international currency. And yet, if we examine this matter closely we find that this is by no means so, and that the international role of sterling and of the London banking center has always been a liability rather than an asset from the point of view of the national wealth.

Dr. Paul Einzig

A country with a perennial export surplus—such as Britain had until the war—naturally has to lend abroad in some form, and to that extent it has to play the part of an international banker. This function is anything but profitable, owing to the large proportion of defaults on foreign loans and credits. There is reason to believe that capital losses on foreign loans and investments made by Britain during the last hundred years were in excess of her earnings of interest and dividends on these loans and investments.

When we talk about the international role of sterling and of the London banking center, however, it is not the function of investing abroad the proceeds of export surpluses that we have in mind. The banker's real task is to re-lend money borrowed from others. London's international function consists therefore of relending abroad the foreign moneys deposited in sterling. Owing to sterling's role as an international currency, large amounts are kept permanently in London as working balances.

The question is, does this activity pay? Individual banks engaged in keeping foreign deposits and granting foreign credits naturally earn a profit on these operations, though owing to keen competition between the wars the margin of profit declined to vanishing point. The standard rate of commission on acceptance credits granted to Germany was ½% per annum, and it was possible to discount the acceptances at ½%, so that the credit cost the borrowers 1%. This was about the same as the deposit rate paid on foreign deposits by London banks which, in a competitive effort to increase the amount of their deposits, were prepared to forego their profit. The commission of ½% per annum implied that the accepting banks assumed that Germany and other borrowers would not default for at least 200 years! As a matter of fact, the amount lost on Germany's default in the 'thirties wiped out any profit that may have been earned on international banking activities since the beginning of this century.

In any case, the attraction of foreign balances carries no advantage beyond satisfying the ambition of banks wanting to show an increase of their deposits. Foreign balances are easily the least dependable type of balances. They are liable to be withdrawn wholesale, and can only be employed, therefore, in very short-term loans. What is much worse, for a country working with a narrow margin of export surplus and with a relatively small gold reserve—as Britain did between the wars—there is always a temptation to spend abroad the foreign exchange obtained through an influx of foreign balances, or to re-lend it abroad in a not sufficiently liquid form. As a result, the situation arose in 1931 that foreign depositors reclaimed their money and Britain was not in a position to find the gold necessary for meeting the drain. To avoid the recurrence of the situation, the British Treasury adopted in 1932 the policy of setting aside the gold equivalent of the foreign balances accumulating in London. By 1939 a gold reserve of some £600,000,000 was kept for that purpose. This meant that the British taxpayer had to provide interest on a corresponding amount of government loans that had to be issued in order to finance the acquisition of the gold equivalent of foreign balances.

Nor is this all. Before the war, a certain London banking house granted Hitler's Germany acceptance credits which indirectly helped Germany to finance her rearmament imports. When the war broke out the Bank of England had to take up the bills, in order to obviate the failure of the banking house, failure which would have been damaging to London's position as a banking center. The loss thus incurred was paid out of the Bank of England's hidden reserve. And since the hidden reserve has arisen largely out of the commission paid by the Treasury to the Bank of England on government transactions it is true to say that the British taxpayer indirectly financed German rearmament through London's international banking activity.

It is often argued that London owes its prominence as an international commercial center to sterling's role as an international currency. Nothing could be further from the truth. In the annual reports of the British Department of Overseas Trade between the wars, the Commercial Counsellors of British Embassies and Legations repeated to boredom that if only British firms quoted in the currencies of importing countries instead of insisting on quoting in sterling, they would do much more business. Indeed much international commercial business was lost by London to Hamburg and Rotterdam, because the German and Dutch merchants were prepared to quote in terms of the currencies of their customers. London owes its prominence as a commercial center to its geographical position, to its position as the center of an empire covering five continents, to shipping facilities and to insurance facilities which existed long before sterling became an international currency. It is true to say that London developed its international commercial position in spite of being handicapped by sterling's role as an international currency, and not because of it. Admittedly, credit facilities granted in sterling helped, but they were granted far too cheap, so that what was gained on commercial business attracted by such means was lost on defaults.

If a country has a large and persistent export surplus and a large gold reserve then its currency must assume the role of an international currency. While this may be gratifying from the point of view of prestige, it is a mistake to imagine that the country concerned stands to derive any material benefit from it. However, if the country is wealthy and strong—like the United States are at present—it can afford to stand the burden. What is absurd is that a country, such as Britain, which cannot afford it, should try, for misguided considerations of prestige, to play a part that is beyond its present means. It is a mistake on the part of Mr. Dalton and his advisers to allow their policy to be guided by their desire to maintain and increase sterling's role as an international currency.

Stock Ex. Firms Ass'n Annual Meeting Nov. 17

The Nominating Committee of the Association of Stock Exchange Firms has announced the following nominees for offices to be voted on at the Annual Meeting and Election of the Association of Stock Exchange Firms to be held on Monday, Nov. 17.

For Board of Governors (nominated to serve three years): James E. Burns, Jr., Harris, Upham & Co., New York City; Ralph W. Davis, Paul H. Davis & Co., Chicago; J. Lewis Gabel, Bogardus, Frost & Banning, Los Angeles; Russell E. Gardner, Jr., Reinholdt & Gardner, St. Louis; Maynard C. Ivison, Abbott, Proctor & Paine, New York City; F. W. Pershing, Pershing & Co., New York City; Frank C. Trubee, Jr., Trubee, Collins & Co., Buffalo; Hans A. Widenmann, Carl M. Loeb, Rhoades & Co., New York City.

Renominated to serve three years: James E. Hogle, J. A. Hogle & Co., Salt Lake City; William E. Huger, Courts & Co., Atlanta; George R. Kantzler, E. F. Hutton & Co., New York City.

Nominating Committee for 1948: Benjamin T. Burton, Burton, Cluett & Dana, New York City; Dean Dillman, E. F. Hutton & Co., San Francisco; Harold T. Johnson, Jas. H. Oliphant & Co., New York City; Harold C. Patterson, Auchincloss, Parker & Redpath, Washington, D. C.; Charles N. Scheck, Jr., Mitchell, Hutchins & Co., New York City.

The Annual Dinner Meeting of the Association will be held on Monday evening, Nov. 17, at the Hotel Commodore. Henry J. Taylor, journalist, economist and author, will be the principal speaker. His subject will be "Looking Ahead at Home and Abroad."

The Annual Meeting of the Association of Stock Exchange Firms will be held in the afternoon on Nov. 17 in the Board of Governors Room of the New York Stock Exchange, at which time eleven governors will be elected and also the 1948 Nominating Committee of five members. Members will also vote on proposed amendments to the Association Constitution and transact such other business as is necessary. Following the Annual Meeting of members the new Board of Governors will meet for the election of officers for 1948 and for other business.

Proposes New Tariff Set-Up

Sen. Hawkes proposed six-point tariff policy to protect American productiveness. Says nation is already large importer, and opposes increased imports of goods which we can produce as well as better than others.

Addressing the dinner meeting of the American Tariff League at the Waldorf-Astoria Hotel in N. Y. City on Oct. 17, Sen. Albert W. Hawkes (Rep.-N.J.), a member of the Senate Finance Committee, proposed a revised tariff policy, based upon the principle that the United States should not aim to increase imports merely for the sake of expanding exports. He expressed his views on tariff policy in the following statement:

Sen. A. W. Hawkes

"(1) I think tariffs are the fairest means of equalizing conditions with which we do not want to compete—(low standards which affect cost).

"(2) Unless there is definite need for a tariff, we should not have one, except where for revenue purposes.

"(3) A new Tariff Commission should be created. The Commissioners should be men of the highest ability and integrity. They should have adequate salary and a long tenure.

"This Commission should be given authority to determine through hearings and otherwise, the facts necessary to a calculation of a proper tariff rate to implement the policy laid down by the Congress.

"(4) Such Tariff Commission should have the further authority to make or change rates, such changes to be proclaimed by the President, if not disapproved by Congress within a specified time.

"(5) The Congress should enact a statute establishing the principle or basis on which rates shall be made or changed within prescribed limits.

"Provision for flexibility should be provided to meet changing conditions but with some practical limit on the frequency of change.

"(6) A program of tariff changes by negotiation, through the Department of State, could perhaps be continued provided there was reasonable equality of concessions and that the rate to be used in such trade shall be set by the Tariff Commission, as before described."

Explaining his views on foreign trade promotion and the domestic economy, Senator Hawkes remarked:

"The inescapable fact is that the nation gains only through its imports of what it needs or wants. Unless the value of imports and exports eventually balance, the excess of exports are gifts, not sales. Therein lies the deception of propaganda to make people believe that these excessive exports are profitable trade providing increased employment whereas, actually, as taxpayers we must pay for the excess exports. For when government loans the money abroad, it must collect it from its own citizens as taxes.

"Current propaganda of the Advertising Council uses the slogan: 'Part of every dollar you get comes from foreign trade.' The truth is that at present part of every dollar you get goes to pay for foreign trade.

"The emphasis on exports puts us on the wrong foot. We have the ability to produce and export, but we do not have the corresponding capacity to import an equal value. Reduction or even elimination of United States tariffs altogether will not increase our need for foreign commodities.

"When a government, under pressure from special interests within the country unduly lowers tariffs on competitive products, it strikes a devastating blow at the vital basis of its own prosperity and by its own act creates the conditions for unemployment.

"Some bankers and merchants are vociferous in their denunciation of tariffs or other legitimate regulatory devices as barriers to trade. At the same time they advocate huge foreign loans in order to finance continued vast exports. Such trade, they say, makes for peace.

"As we read the sweet things currently said about us by those to whom we have loaned the most, we may wonder if the peace tag put on these things has any validity or whether perhaps it is just the carrot before the donkey. There is truth in the old adage that the way to lose a friend is to loan him money."

Expect Anti-Trust Action Against Underwriters

Conference between Department of Justice and Attorneys of Wall Street houses leads to expectation civil suit will be filed under Anti-Trust Act. Action has been pending for three years.

A meeting in Washington on Oct. 15 of attorneys of several large securities underwriting concerns and officials of the Anti-Trust Division of the Department of Justice has led to the expectation that a civil suit will be filed either late this year or early 1948 against several investment banking houses on the ground of illegal collusion to fix prices and avoid competition in the underwriting of new security issues.

The matter has been under consideration for about three years, during which the Department of Justice has questioned, among other things, the legality of the provision in underwriting agreements of the price maintenance clause during the life of underwriting syndicates. Other practices connected with securities underwriting have also been under fire, all presumably an outgrowth of the Securities and Exchange Commission's policy of extending the field of competitive bidding in securities underwriting and otherwise seeking to control in absolute bureaucratic fashion the securities marketing industry. According to one newspaper account, it is stated that the Justice Department has already requested a number of underwriting houses to sign a consent decree and thus avoid a court action, and that these concerns have been advised by their attorneys not to do so but the "Chronicle" as yet has had no confirmation of this. That some sort of anti-trust action may be expected, however, is indicated by the Justice Department referring the matter to a Federal Grand Jury in New York City.

Join Leonard Fertig Staff

(Special to THE FINANCIAL CHRONICLE)

FT. WAYNE IND. — F. Ray Fecker and Alton P. Hower have become connected with Leonard J. Fertig & Co., Berry at Court Street, members of the Chicago Stock Exchange.

U. S. Economy Can Support Foreign Relief: Krug

Interior Secretary, in report to President, anaylzes our national resources, but warns, with or without a foreign aid program, nation faces pressing urgency for expanding conservation practices.

In his report, "National Resources and Foreign Aid," Secretary Krug declares that from the standpoint of preserving the national security and our standards of living, our economy in general is physically able to provide the resource requirements of a considerable program of foreign aid.

J. A. Krug

A foreign aid program, the Secretary points out, will serve not only a humanitarian interest in preventing hardship and starvation for millions of people, but can also provide the basis for getting the world economy off dead center and creating the circumstances under which all areas of the world may be fully productive and wisely exchanging their products with each other.

The Report declares that the economy is operating at the highest levels in history and shortages resulting from high consumption will be intensified, particularly in such commodities as wheat, steel, coal, nitrogen fertilizers and certain items of industrial equipment. These shortages present the problem of supply and consequent economic repercussions to be faced during the next year. Most of the supply problems are of short-run nature that will tend to diminish throughout the five years under study, because increases in some domestic capacities are being undertaken and because foreign aid needs for many critical commodities can be expected to taper off sharply as production abroad gets under way. The supply impacts, moreover, can be minimized by establishing effective procedures for careful screening of requirements and for channeling of supplies so that they will serve to maintain production here and provide the means for rehabilitation abroad.

The survey makes clear that with or without a foreign aid program, this country faces a pressing urgency for expanding its conservation practices such as those for preserving the fertility of the soil and the productivity of its forests and for extending its efforts to discover and develop new sources of supply for many basic materials. The Report stresses the need for stepping up our resources into new and better methods of using low-grade ores, by-products, and what are now waste materials.

Selected for study in the Report are those commodities which represent the bulk of current exports which are most likely to be required for a foreign aid program. Included are agricultural products; coal; iron and steel; nitrogen fertilizers; metals (exclusive of iron and steel); machinery and equipment (including vehicles and agricultural machinery; petroleum and petroleum products; chemicals and related products; rubber and rubber manufactures; textiles; leather and leather manufactures; fish; fats and oils; forest products and other building materials.

Studies of specific commodities reveal that in most instances, exports are not a large claimant for the current high levels of production and are not relatively as large as before the war. Though many items are in scarce supply in the United States chiefly as the result of the war and the extraordinarily high level of domestic demand, the only serious problems of supply to be anticipated in connection with foreign aid will be those related to shortages that are world wide in character and result chiefly from wartime destruction or devastation of production facilities.

The small number of key commodities simplifies the problem, but their basic and interrelated character complicates it. Maximum effort to relieve current food deficiencies abroad interferes to some extent, with the aim of restoring foreign economies to a self-supporting basis. At current high prices, United States' farmers are eager to increase output and their strong competition for available supplies of nitrogen fertilizers and farm machinery increases the difficulty of satisfying export demands for these goods. Similarly, foreign demands for coal and steel compete with those for mechanical equipment. The need to effect a reconciliation among these and other competing demands, many of which are relatively unessential, poses the central problem of supply, so far as the foreign aid program is concerned.

Curb Clearing Corp. to Facilitate Transfers

It is reported that the New York Curb Exchange Securities Clearing Corporation is ready to put into operation a centralized system for facilitating securities transactions between member firms and non-member organizations and banks. The system was devised several months ago to alleviate the difficulties and red tape that beset members in making these transfers on an individual basis.

Under the plan, securities to be transferred to a non-member will be delivered to the clearing corporation each morning by member firms. They will be sorted and made up into bundles and will then be sent to non-member firms through messengers of the clearing corporation. Later in the day messengers will return to the non-member houses for payment by checks made out to member houses, the sellers, and not to the clearing corporation direct. The checks received are then sorted for bulk delivery to the various banks where they will be certified. After certification, checks go back once more to the Curb and are picked up by member firm messengers.

With Frank D. Newman Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Eugene V. Walter has become affiliated with Frank D. Newman & Co., Ingraham Building. He was previously with Clark Davis Co.

Moffett With Conrad, Bruce

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE. — John F. Moffett has become associated with Conrad, Bruce & Co., 813 Southwest Alder Street. He was formerly Portland representative for Hugh W. Long and Company, Inc.

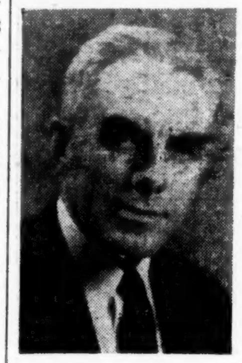
The Tax on Enterprise

By EARL O. SHREVE*

President, Chamber of Commerce of the United States

Asserting wise decisions in fiscal policy are vital if our prosperous economy is not to lead to disaster, prominent industrial spokesman urges both reduced government spending and tax structure revision that will not handicap enterprise. Advocates close scrutiny of defense and foreign aid spending, and points out needed changes in taxes, particularly abandonment of steeply graded income tax rates. Says taking too much out of taxpayers' dollar discourages investment and managerial incentive.

According to an old and cynical saying, what is everybody's business is nobody's business. But that saying cannot apply today to the Federal Government's fiscal policies. Because the effects of those policies reach down into the smallest details of our economic life.



Earl O. Shreve

And, because business enterprise is the instrument most largely responsible for our economic advancement, just how and where the government collects and spends its money is of supreme concern to the businessman.

The most important domestic issue that will come before the next session of Congress will be the government's fiscal policy—taxes here at home—and spending here and abroad.

I should like to take this opportunity to emphasize some vital truths about taxes and their relationship to the American enterprise system, also to indicate how these truths ramify through the maze of the tax structure.

Our present tax structure — a hodge-podge today — has been fashioned by the changeful winds of circumstance that have blown violently—and at times erratically—during the last two decades.

Taxes, in fact, have become a jerry-build structure, some of whose constituent parts derive rom social reform, some from war expediency, and some from woolly-minded thinking about economic verities.

In the present Federal tax setup there has crept—wittingly or unwittingly—much of the fuzzy theorizing that finds expression in noble-sounding phrases.

Tax Revision Would Increase Revenues

If revenue is the chief end of taxation, the present tax system could increase Treasury cash receipts by being overhauled. And at the same time, such an overhaul would stimulate incentive of the individual to work, to create, to save.

We all are familiar with the "soak the rich" slogan. It is an emotion-charged verbal recipe for instituting confiscatory tax rates in the higher income brackets. The implication of this catch-phrase is that the tax burden can be shifted from the many to the few by an adroit juggling of the rates applied in the several income brackets. A variation of the phrase is the one about "adjusting taxes to the capacity to pay." In the circumstances, the reasonable question is—who actually gets soaked? The answer is clear.

It is apparent that what really suffers—what really gets soaked hardest is enterprise. Thus, soaked to saturation, to the point of drowning, is the venture spirit and the incentive to go through the wearing strain of creating and expanding business.

I wonder if some of those would-be architects of our economic destiny have ever stopped to note the infant mortality rate of business ventures. Many businesses are started. Few survive to profitable maturity. Fewer still reach a ripe old age.

One reason for that high mortality rate is that many hopeful starters don't discover the tough facts about taxes and the risks of enterprise until they enter the business field and then find themselves in the harsh competitive struggle to survive.

Congress this year made a laudable effort to come to grips with the tax problem and you are familiar with the manner in which legislative action was twice hamstrung by the Executive branch of our government.

It was a close finish and I am convinced the legislative branch would have prevailed had not the main issue of urgently needed tax relief become lost in the fog of politics.

Taxes and Spending Are Inseparable

Taxes and spending are inseparable. Together, they generate inflationary or deflationary forces. We must recognize the fact that the general inflationary situation in the war years derived from emergency spending and borrowing. Chief source of the current bloated money supply is the national debt total of some $260 billion. Nobody, of course, expects that debt to be repaid quickly. But it is quite possible to manage the debt with the objective of reducing effectively its inflationary pressure.

Another real check upon the inflationary trend is to develop conviction in the market place that government actually intends to cut spending.

(Continued on page 26)

*An address by Mr. Shreve before the Detroit Board of Commerce, Detroit, Mich., Oct. 21, 1947.

Problem of Inventory Pricing

By GEORGE S. COCHRANE*
Member, Deloitte, Plender, Griffiths and Co.

Accountant calls attention to dangers of improper prices of inventories and warns utmost care and skill be used, since wrong answer in inventory pricing will have serious adverse effect on a business. Calls for clarification of "the lower of cost or market" rule.

The most important single item in the accounts of this country's business at the present time is the Inventory.

It seems to be beyond dispute that many influences, some of them worldwide, not inherent in the commodities themselves are affecting the price structure. Government spending, government buying, ill-considered taxation, so-called currency management are a few of these which are as important as the more direct causes, the shortage of supply and increasing direct costs.


George S. Cochrane

These influences, completely outside the scope of business management, and operating prediction, have placed our price structure in an extremely precarious position. The utmost skill and care will therefore have to be exercised in order that the value of all classes of inventory may be satisfactorily arrived at for the accounts of business which will be compiled during the next few months and which you, as auditors, will be required to examine and report upon.

Unquestionably prices of all things at the present are high measured in terms of dollars or other currency and as compared with prewar periods. Whether or not such measure is reliable may be open to question but it is the standard of measure which we have to use.

There has never been any doubt in the mind of the accountant that the basis for satisfactory inventory valuation is "the lower of cost or market" but some time ago many began to question whether we really knew what this phrase meant. What cost? What market? And in questioning it became clear that these were matters which neither business nor accountants had satisfactorily defined.

A wrong answer to the questions surrounding inventory pricing will have a serious effect on the economy of the business concerned and enough wrong answers will have a serious effect on the economy of the whole country, indeed, of the world.

The experience of previous years, particularly 1921 when prices to commodities the world over climbed rapidly to unprecedented levels and then crashed, needs to be given serious consideration. Appropriate action must be taken to anticipate and measure the fall which sooner or later will inevitably take place and will be much more rapid than has been the rise in prices.

As a chart to your thinking on this subject, Bulletin No. 29, Inventory Pricing, issued by the Committee on Accounting Procedure of the American Institute of Accountants in July of this year, is most timely.

*A talk by Mr. Cochrane before the New York State Society of Certified Public Accountants, New York City, Oct. 20, 1947.

With Southeastern Securs.

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, FLA. — Thomas G. Greene has become connected with Southeastern Securities Corp., 304 West Adams Street.

Proposes Floor Under Food Consumption

Carl C. Farrington, Assistant Administrator of Production and Marketing Administration of Agricultural Department, tells House Committee on Agriculture Congress should set as a national goal the maintenance of floor under food consumption, based on what people want and need to eat and ability of agriculture to produce.

In a statement prepared for the House Committee on Agriculture and Forestry, on the Agricultural Department's long-range program for food production and control, Carl C. Farrington, Assistant Administrator of Production and Marketing Administration, proposed setting up a floor under food consumption and a scheme of price supports in the United States, in order to avoid the desperate situation which faced the farmers in the early thirties.


Carl C. Farrington

"We recommend," Mr. Farrington stated, "that the Congress set as a national goal the maintenance of a floor under food consumption in the United States based on what the people want and need to eat and the ability of our agriculture to produce. Programs should then be set up which would—insofar as is practical—prevent consumption from falling below that level."

Continuing, Mr. Farrington stated: "Though this floor under demand would in itself support farm prices, we would also need more direct governmental price supports at a moderate level to give farmers needed price assurance. We would also need a program of government loans and an ever-normal granary. We would need a strong program of production goals, aided by adjustable price supports, so that agricultural production can be adjusted to changing demands as rapidily as possible. And though we would expect them to be generally inoperative, we would need authority to use acreage allotments and marketing quotas to meet emergencies for individual commodities.

"We would need authority for an expanded program of marketing agreements and orders to provide orderly marketing and reduce price fluctuations. We would need a foreign trade program which would give us a market for such cotton, wheat, tobacco, lard, rice, and certain fruits and vegetables as we produced beyond our domestic needs.

"Since this overall program involves a shift in our emphasis from our prewar program, I should pause a minute to give you some of the reasoning we went through in deciding that this was the best way of supporting farm income. We know that by nature our farmers turn out a growing abundance of food and fiber, and that the only way we could curb that outpouring of plenty would be to resort to government controls over production and distribution of such a magnitude that no segment of our economy would like them.

"We know, further, that putting chief emphasis on maintaining high unit prices defeats our own ends. During hard times, even if we were able to keep prices up by cutting production, farmers would not get parity of income. But if we concentrate on cutting costs through volume production and increasing efficiency on the one hand, and on boosting consumption on the other, we will thereby achieve in maximum degree that which we originally sought—good farm income.

"Finally, we know that the farmers' tendency to produce abundantly in good times and bad is basically right. If we can get our whole economy to do that we will have gone a long way toward permanent national prosperity. We want to set national agricultural policy which will encourage that which is known to be in the right direction. From that beginning it is hoped that a basis can be laid which will insure continued full production in the rest of the economy. Without that beginning—without full production of food and other agricultural raw materials—continuous full industrial production would be impossible.

"Now let's turn to program details.

Programs to Stabilize Consumption

"As I proceed you will notice that we are proposing a considerable number of programs. We would not expect to use them all on any one commodity, or on all commodities at any one time. In good times such as these, only a minimum amount of action would be needed. But when an emergency develops we will need the flexibility that can only come with a wide range of program aids. We need to get these aids on the books now, while we are free of the pressures which emergencies will bring. In spite of the number of programs which we are suggesting, I assure you that our first emphasis in stabilizing consumption and farm income will be placed on maximizing the quantity of agricultural products which flow through the normal market channels at prices reasonable for both producers and consumers."

With Hulburd, Warren Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Floyd W. Drew has become affiliated with Hulburd, Warren & Chandler, 208 South La Salle Street, members of the New York and Chicago Stock Exchanges and other leading exchanges.

John Saris Has Joined A. G. Becker & Co. Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John Saris is now with A. G. Becker & Co., 120 South La Salle Street. He was formerly with Dealers Discount Co. and Argus Research Corporation. In the past he was with the City National Bank & Trust Company of Chicago.

Scores Sen. Taft's Socialistic Tangent on Public Housing

Herbert U. Nelson, Executive Vice-President of National Association of Real Estate Boards, attacks Republican leader's stand on public housing. Suggests plan to stimulate private housing investment.

Businessmen deeply regret Sen. Taft's excursion into the kind of socialism that is now conspicuously failing in England, Herbert U. Nelson, executive Vice-President of the National Association of Real Estate Boards, asserted on Oct. 21 at a luncheon speech to the Ohio Association of Real Estate Boards in Cincinnati.


Herbert U. Nelson

"I predict that no man who stands for socialism in housing, in medicine, and in general welfare can become the Republican nominee for the office of President of the United States," Mr. Nelson said. "Businessmen hate the stifling and negative ways of socialism and will tolerate no compromise with it. Senator Taft will never convince them that socializing part of our economy is not socialism. They know that socialism always takes over little by little, never in an overnight move. The net result of Senator Taft's misstep is to encourage it along.

"Advocates of a collectivist economy have had no single tool so potent in winning support for their objectives as Senator Taft's name. By turning his back on his record he has given comfort and aid to the enemies of private enterprise, of freedom of individual initiative and of representative government through delegated powers.

"Even if the bureaucratic road to production would work, it would cost more in human self-respect than it is worth, but it won't work. Its inability to work is steadily lowering living standards in England, as it has done in Russia.

"Bureaucratic production under socialism always stabilizes shortages. When government encourages competitive production in a free economy, the result is surplus—freedom's word for 'enough.' This has been the American tradition and it's time to put it to work again.

"It is now within the power of the Federal Government to stimulate a five-year plan of private home production that can humble the wildest dreams of planners in the collectivist economies."

If Congress will agree now to amend the internal revenue law to permit anyone who invests in housing, for sale or for rent, to deduct his investment from his taxable income for a period limited to three years, private industry can produce 5,000,000 new homes for rent and for sale and provide home ownership for 5,000,000 families who have never before been able to attain it, Mr. Nelson explained. This means that two-thirds of American families would be home-owning families within five years. It would end the housing shortage and, at the same time, uproot the seeds of socialism that have been planted.

This action by Congress would simply permit taxpayers who invest, during a limited period of time, part of their incomes in housing to keep that part of their income free of taxation, he added. We do this now for that part of the taxpayer's income that is used to pay interest involved in purchase of housing. If we extend the same exemption to the part of the housing investment that is used to pay other cost items, our housing standards will advance more in the next five years than they have in the past century. This is one "five-year plan" that will work, he said.

San Fran. Exchange Sponsors Oil Field Tour

SAN FRANCISCO, CALIF. — Leaving Oakland Airport by chartered DC-4 plane, 35 representatives of member firms of the San Francisco Stock Exchange, Exchange executives, San Francisco's leading banks, and the Bay Area Press flew over the Santa Maria Valley and Ventura Avenue Oil Fields and over the Union Sugar Company properties enroute to the Los Angeles Basin Oil Fields.

At Long Beach, the party was met by Will J. Reid, President of Hancock Oil Company and Sam B. Mosher, President of Signal Oil and Gas Company, who took the group on an extensive tour of the oil fields in that area. Mr. Reid and Mr. Mosher were hosts at a luncheon held at the Officer's Club on the Long Beach Naval Base.

From Long Beach, the party inspected installations of the Basin Oil Company in their new Inglewood development before boarding the plane at Los Angeles Airport for the return trip.

This is the second such tour sponsored by the San Francisco Stock Exchange in keeping with its policy to keep financial interests well informed on Western industrial development.

Among these on the trip were: M. J. Duncan, Calvin E. Duncan & Co.; Geno Galigani, Davies & Mejia; Arthur Gambarasi, Shaw, Hooker & Co.; Richard P. Gross, Stone & Youngberg; George N. Keyston, Keyston & Co.; Geo. E. Forrester, Wm. R. Staats Co.; Andrew H. McCampbell, Mason Brothers; Harry Meyerson, Kaiser & Co.; Mathew Morton, Davis Skaggs & Co.; Carl Rasmussen, Schwabacher & Co.; P. W. Reed, Raggio, Reed & Co.; Robert E. Sinton, J. Barth & Co.; Harold Getz, Sutro & Co.; Stanley E. Symons, Sutro & Co.; Thomas Tasso, Walston, Hoffman & Goodwin; John C. Traylor, Douglass, Van der Naillen & Co.

Earl Richards, Dean Witter & Co.; Phillip J. Fitzgerald, Dean Witter & Co.; C. N. Alexander, Oakland Post-Enquirer; Lindsay Arthur, S. F. Call-Bulletin; Eugene H. Gray, Walker's Manual, Inc.; John M. Julius, The Wall Street Journal; John S. Piper, San Francisco News; Alfred J. Schneider, S. F. Examiner; Alex Streloff, San Francisco News.

R. E. Kaehler, President, San Francisco Stock Exchange; J. C. Schick, Public Relations, San Francisco Stock Exchange; H. Taylor Peery, Vice Pres., Bank of America, NT&SA; Neil Brogger, Bank of America, NT&SA; James A. Horsburgh, Wells Fargo & Union Trust; Laurence H. Tharp, Vice Pres., Anglo California National Bank of San Francisco; Arthur W. Schiefer, Ass't Vice Pres., Bank of California; Arthur Merkt, Crocker First National Bank of San Francisco; F. S. Litchfield, American Trust Co.

Two With Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Rex M. S. Beach and Eldon R. Schade are now with Slayton & Co., Inc., 408 Olive Street.

Federal Taxation and Debt Management

By BEARDSLEY RUML*

Chairman of the Board, R. H. Macy & Co., Inc.

Pointing out close relationship of taxation to debt management in a fiscal policy aiming at a high level of productive employment, Mr. Ruml contends much depends for its success on classes of government debt outstanding and character of its distribution. Advocates financing relief expenditures under Marshall Plan by taxes, and reconstruction expenditures by sale of savings bonds.

The problems of debt management can be divided roughly into two general classes, first, those problems related to the structure of the debt, of its ownership and of its management and second, the problems raised by the possibilities of debt management as a tool of fiscal policy, affording a new instrument to help maintain a high level of productive employment and at the same time to contribute toward the weakening of dangerous inflationary pressures. Answers to the problems of either of these two classes will necessarily be related one to the other.

Beardsley Ruml

The structural problems of debt management include questions as to what the interest rate should be, what the maturities of the debt should be and how they should be balanced, how the ownership of the debt should be distributed, who should have the power to decide these points, and how debt management should be related harmoniously with other aspects of fiscal policy.

The possibilities of debt management as a tool of fiscal policy arise first from the sheer size of the debt and second from its complex composition. If the debt were small, the possibilities and necessities of debt management would be negligible.

Kinds of Public Debt

The national debt consists of at least four distinguishable kinds of debt; that is to say, the national debt is in no sense a homogenous global aggregate. Through the application of surpluses and through the terms of refunding issues, the retirement of sums from each classification or the transference of debt from one classification to another has consequences on the amount and kind of purchasing power remaining in the hands of the public. Debt management is therefore a corolary of tax policy in the maintenance of high employment at stable price levels.

I have said there are at least four distinguishable kinds of public debt. Let me name them.

First, there is the debt in the hands of private individuals. We could perhaps divide this classification in terms of amount and maturity and get some significant differences.

Second, there is the debt in the hands of savings banks, insurance companies and other institutional investors.

Third, there is the debt in the hands of the commercial banks.

Fourth, there is the debt held by the Federal Reserve Banks, Federal trust funds and other Federal agencies.

During the war we knew that the sale of war bonds to private individuals, particularly those with small and moderate incomes, was an alternative to taxation as a means of withdrawing purchasing power from the hands of the people. We know that sales of bonds to the commercial banks had different effects. But, in spite of the fact that we made these distinctions in wartime, we do not seem to have carried a parallel conception over the long-term problem of managing a $250 billion debt.

Effect of Marshall Plan

Some such approach as this in the management of the debt becomes of urgent importance now that we are faced with new possible requirements that may arise under the Marshall proposals for European rehabilitation and reconstruction.

Expenditures for relief must be dissociated from advances for the reconstruction of productive facilities and for working capital and inventory. Relief expenditures should be financed by taxes, since the food and supplies which we provide are currently consumed and should not be added to the burden of repayments. Some of the productive facilities will be of a character that can be properly financed by the International Bank.

But there will be other productive expenditures that are clearly not relief, but which will be unsuitable for loans from the International Bank.

Such productive loans abroad for world reconstruction should be financed, not by taxes but by the sale of U. S. Government savings bonds to the public. The sale of these government savings bonds should be nationwide intensive campaigns associated with care and restraint in consumption.

A program of sales of savings bonds to the public picks up purchasing power that would otherwise have to be withdrawn by taxation. It has the great advantage over taxation in that it therefore does not impose on those who cannot afford it, as taxation might, the direct costs of reconstruction of productive plants. The sale of savings bonds to the public can also be timed and scheduled in amount to meet expenditures in this market when they actually occur.

In principle, I think it can be said that we shall be on sounder ground if all our international commitments that are directed to the reconstruction of world productivity, productive loans as distinguished from grants for emergency relief, are covered by sales of bonds to the public rather than by taxation. The tax burden is far too high and one important measure of tax relief will be found if the proceeds of the sales of savings bonds are used for budgetary expenditures of a constructive and non-recurrent nature such as those which we are now discussing.

The financing of productive loans by the sale of U. S. savings bonds to the public does not mean deficit financing; it only means that the surplus will be less than it otherwise would be. The financing of productive loans by bonds means that tax rates can be even lower by that amount; and since the bonds are savings bonds they will operate in the manner of taxes in checking inflationary pressures. If the plans for world reconstruction succeed, the loans will be offset by payments to the United States arising from new levels of world production; if the plans do not succeed, the bonds will be treated as any other part of the national debt and be subject to redemption or refunding to accord with our domestic economic welfare.

*An address by Mr. Ruml before the Junior Investment Bankers and Brokers Association of New York, New York City, Oct. 20, 1947.

Providence Washington Ins. Stock Offered

Offering of 100,000 shares of $10 par value capital stock of Providence Washington Insurance Co. initially to holders of the company's presently outstanding shares was made Oct. 17 at a price of $28 per share, on the basis of one share of the new stock for each three shares held on Oct. 16, 1947. The offering to stockholders which will expire at noon, Oct. 28, 1947, has been underwritten by a group headed by The First Boston Corp., G. H. Walker & Co. and Brown, Lisle & Marshall.

Proceeds from the sale of the stock will be used to increase the capital and surplus of the company so as to improve the relationship between capital funds and the greatly increased volume of premiums written. For the past 10 years the ratio of the capital funds of the company and its subsidiary, Anchor Insurance Co., on a consolidated basis at the year-end to net premiums written during the year ranged from a high of 146.0% in 1939 to a low of 73.1% in 1946. The ratio of such capital funds as of June 30, 1947, to net premiums written during the 12 months ended June 30, 1947, was 55.0% and, after giving effect to the minimum net proceeds to be received by the company from the present financing would have been 69.0%.

It is expected that substantially all of the net proceeds will be invested by the company in securities.

Chicago & Eastern Ill. Equip. Trusts Offered

A group headed by Halsey, Stuart & Co. Inc. won the award Oct. 16 of $3,450,000 Chicago & Eastern Illinois RR. equipment trust, series E, 2¾% equipment trust certificates, maturing $115,000 semi-annually May 1, 1948, to Nov. 1, 1962, inclusive. The certificates, issued under the Philadelphia Plan, were immediately reoffered, subject to Interstate Commerce Commission authorization, at prices to yield from 1.30% to 3.00%, according to maturity.

Proceeds of the issue will be used to provide for not exceeding 80% of the cost, estimated at not less than $4,563,000, of the following new standard-gauge railroad equipment: one combination mail-baggage-coach car; one dining car; one combination mail-baggage-lunch car; seven coach cars; one rear and parlor-observation car; 500 50-ton, all-steel, hopper cars; 200 all-steel box cars; 25 flat cars, and six 1,500 h. p. Diesel road locomotives.

Associated with Halsey, Stuart & Co. Inc. in the offering are A. G. Becker & Co. Inc.; Otis & Co.; Freeman & Co.; First of Michigan Corp.; Martin, Burns & Corbett, Inc.; Mullaney, Ross & Co.; Alfred O'Gara & Co.; The First Cleveland Corp.; Mason, Moran & Co., and F. S. Yantis & Co., Inc.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Fire losses in September were the lowest of the year, and totalled $47,990,000, according to the National Board of Fire Underwriters. For the nine months the aggregate was $517,982,000, compared with $418,579,000 for the corresponding period in 1946, and $333,988,000 in 1945. The per cent increase of 1947 over 1946 is 23.7%, compared with a 25.3% increase of 1946 over 1945.

Thus, fire losses are still increasing though at a fractionally lower rate, and it must be assumed that net underwriting operations in 1947 will be unprofitable for many companies, and only moderately profitable for those better situated.

However, the percent increase in fire losses is somewhat less than an indicated 30% expansion this year in premium volume, thus the average fire loss ratio may not be greatly affected. But the over-all incurred loss ratio may average higher than in 1946, due to the Texas City disaster and the Caribbean-Gulf hurricane.

Offsetting factors in the situation are rate increases in a number of States, and lower expense ratios on the expanded volume of business, which will have a modifying effect on the combined loss and expense ratio.

It is pertinent to refer to Best's compilation of the semi-annual ratios of 70 stock fire companies which shows the following comparisons:

	June 30, 1946	June 30, 1947
Loss ratio	62.9	64.2
Expense ratio	40.6	39.1
Combined ratio	103.5	103.3

It will be noted that the loss ratio increased in 1947 by 2.1%, while the expense ratio dropped by 3.7%, with the result that the combined ratio was a shade lower.

Due to the sustained increase in premium volume, funds available for investment have climbed to record heights, which fact, combined with a substantial number of increases in dividends paid this year by industrial corporations, leads to the inevitable conclusion that average net investment income of the fire companies will register a peak this year.

Best's compilation for 70 companies (referred to above), shows their aggregate net investment income for the first half of 1947 to have been $17,869,000, compared with $16,578,000 for the first half of 1946, a gain of 7.8%. Dividends over the same two periods were $11,331,000 and $12,328,000, respectively, an increase of 8.8%. Dividend coverages by net investment income alone were, respectively, 1.46 and 1.45.

Dividends appear safe and are likely to be steady, in accord with the conservative policy of representative fire insurance companies. This feature, combined with long-term equity growth characteristics, explain in part the high favor in which fire insurance stocks are held by conservative long-term investors. Stocks of a group of 21 leading old-line fire insurance companies (listed below) are currently selling at an average dividend yield of 4.0%. Highest yielding stock in the group is Agricultural with 5.2%, and the lowest yielding stock is Hartford Fire with 2.3%. The former company was founded in 1863 and has paid dividends each year since; the latter was founded in 1810 and has paid dividends without a break for the past 73 years. The average age of the 21 companies is 105 years, and the average unbroken dividend record is 67 years.

Since the 1942 lows of the market, fire insurance stocks, as measured by Standard & Poor's weekly index, have moved from 86.8 to 115.8 on Oct. 15, 1947, a rise of 33.4%; over the same period the Dow Jones Industrials have moved from 92.92 to 183.28, an appreciation of 97.2%. Relative to the Dow Jones, the fire stock index lagged 5.5% behind the industrials from the low point of 1942 to the end of that year, despite an appreciation from 86.8 to 105.4. Through the year 1943 the index rose, but lagged 4.1% behind the Dow Jones; through 1944 and 1945 the index again rose, but also lagged behind Dow Jones 8.6% and 6.9%, respectively. Through 1946 and thus far in 1947 fire stocks are still lagging, but show signs of steadying, for the relative lag is at a somewhat slower rate, viz.: 8.0% for the 21 months.

List of 21 stocks used: Aetna Insurance Co., Agricultural Insurance Co., Boston Insurance Co., Continental Insurance Co., Fidelity-Phenix Fire Insurance Co., Fire Association of Philadelphia, Franklin Fire Insurance Co., Great American Insurance Co., Hanover Fire Insurance Co., Hartford Fire Insurance Co., Home Insurance Co., Insurance Company of North America, National Fire Insurance Co., New Hampshire Fire Insurance Co., North River Insurance Co., Phoenix Insurance Co., Providence Washington Insurance Co., St. Paul Fire & Marine Insurance Co., Security Insurance Company of New Haven, Springfield Fire & Marine Insurance Co., and United States Fire Insurance Co.

Halpern With Orvis Bros.

NEWARK, N. J.—Orvis Brothers & Co., members of the New York Stock and Curb Exchanges, announced that Edwin M. Halpern is now associated with them as registered representative in their Newark office at 760 Broad Street.

Barclay Syndicate in NYC

Barclay Syndicate is engaging in a securities business from offices at 1776 Broadway, New York City. Partners are John A. Dietz, Shepard Barclay and Emily C. Barclay.

Junior Achievement Awards Made by Schram

Awards in the contest sponsored by the New York Stock Exchange for the best annual report by a company in the Junior Achievement plan, a youth movement through which teen-agers engage in their own business enterprises, were presented on Oct. 17 by Emil Schram, President of the Exchange, to Catherine Voorneveld and Peter Czap, who, as officers of the Junior Achievement Company, of West Laboratories, Newark, N. J., wrote the winning report; and to Eugene Jannece and Sisto Cichette of Novelty Printers, Chicago, Ill., winners of second prize.

The young participants in Junior Achievement raise capital for the companies by selling stock, usually at 50 cents a share, and then gain experience in manufacturing, labor relations, marketing, bill

Presentation to Junior Achievement annual report awards winners. From left to right—Peter Czap, Catherine Voorneveld (Newark, N. J., first prize winners), Emil Schram, President, New York Stock Exchange, Eugene Jannece and Sisto Cichette (Chicago, Ill., second prize winners).

collecting, and in meeting payrolls; in short, a full-fledged operation. West Laboratories manufactures and sells an after-shave lotion and a hand cream, from which it realized a net profit of $90.63 in the last fiscal year.

The four contest winners who were honored on Oct. 17 at a luncheon in the Exchange are remaining in New York over the weekend as its guests. Their reports won the competition on the basis of clarity and effectiveness of presentation and on the form of the financial statements. The contest judges were Pierre R. Bretey, former President, New York Society of Security Analysts; John L. Carey, Secretary, American Institute of Accountants, and John Haskell, Vice-President, New York Stock Exchange. The judges stated that many of the 60 entries in the contest deserved highest praise for their excellence.

The aim of the Junior Achievement program was described to the luncheon gathering by S. Bayard Colgate, Chairman of the Board, Colgate-Palmolive-Peet Co., who is Chairman of the National Executive Committee of Junior Achievement. The primary purpose is to give young people between 15 and 21 years of age first-hand business experience, enabling them to see for themselves what it takes to meet a payroll and earn a business profit. Since the movement was first established on a national basis in 1942, the number of companies in operation has grown from less than 200 to nearly 900. Junior Achievement currently operates in 11 states and involves the activities of 60,000 persons, including stockholders and adult advisers. A broad expansion program is under way which envisages a total of 30,000 companies by 1950.

Heavy Demand Causes Platinum Price Rise

The increase of $3 in the price of platinum, announced Oct. 21, was due to a variety of factors. While industrial demand for platinum has been steady throughout the year, the jewelry trade has been in the throes of a mild recession. As a result, jewelers allowed their stocks of platinum to run off and bought on a hand-to-mouth basis. During the past weeks the improved sentiment concerning general business coupled with a strong stock market has stimulated demand for jewelry. Jewelers, seeking to cover their requirements, have found the market bare of offerings.

Furthermore, substantial quantities of the metal have been taken off the market by the public. Seeking to protect themselves against further depreciation in the purchasing power of the dollar, investors have been accumulating one of the few commodities whose price has not yet fully reflected the strong inflationary trends so clearly apparent in our economy.

NASD District No. 13 Nominating Committee

Francis Kernan, White, Weld & Co., Chairman of the District No. 13 Committee of the National Association of Securities Dealers, Inc. announces the appointment of the following Nominating Committee:

George N. Lindsey, Chairman, Swiss American Corporation; John C. Maxwell, Tucker, Anthony & Co.; Frank Dunne, Dunne & Co.; Michael J. Heaney, Jos. McManus & Co.; Frank C. Trubee, Trubee, Collins & Co., Buffalo 2, New York.

The nominations are to be made for two vacancies on the Board of Governors, to replace Irving D. Fish, Smith, Barney & Co., and B. Winthrop Pizzini, B. W. Pizzini & Co., and four members of the District Committee to replace Richard F. Abbe, Van Tuyl & Abbe; Philip L. Carret, Carret, Gammons & Co.; Roy W. Doolittle, Doolittle, Schoellkopf & Co., Buffalo, and John F. Wark, Merrill Lynch, Pierce Fenner & Beane, all of whose terms will expire Jan. 15, 1948.

Dollar Inflation and 1947 Stock Market Outlook

(Continued from page 4)

Washing machines are being turned out at the rate of over 300,000 a month, or double the 1941 rate. Enough shoes were produced in 1946 to equip every man, woman and child in the country with 3 pair and leave 100,000,000 pair for export. Since the end of the war an outpouring of well over 200,000,000 men's shirts and 600,000,000 pairs of women's nylon stockings has certainly erased shortages.

From 1929 to 1944 personal indebtedness in this country was reduced from roughly $41 billion to $35 billion. It has since crossed the $45 billion mark. The greatest individual increase has been in consumer credit which has doubled, from $5.7 billion to over $11 billion. Non-farm home mortgages have increased about 40%.

In other words, gentlemen, quite apparently this accumulated and overflowing purchasing power in the hands of consumers at the end of the war has been markedly cut into. Savings are only one-sixth those of 1944. It has been aided by a market expansion in borrowings. Probably it would be better to say the rise in prices has necessitated those borrowings. At least this big rise in debt has been incurred when living costs were moving to record high levels.

It naturally follows—forgetting for the moment the matter of timing—that, in the event of a business recession—and business recessions have always in the past followed booms in this country—the position of many people is not going to be any too good.

There are definite indications, according to various statistics, that the rise in plant and equipment expenditures which has been seen over the past two years is coming to an end. In a broad sense the demand for capital goods should remain large, as compared with the average prewar year, but in my opinion the concentrated intensely of demand seen in the past two years will subside in 1948.

We have obviously not as yet fulfilled all the accumulated demands for durable goods. This is particularly apparent in the housing field. But it should be remembered that this demand was a deferred demand and can remain a deferred demand. In other words it is dependent upon price—not only on necessity. It is well to remember then that, while a deferred demand still exists, two years ago there were no automobiles or no electrical appliances being manufactured. Today the production of these things is around pre-war peaks.

1947 Sees Peak of Concentrated Demand

Effective demand for durable consumer goods then, is not independent of either incomes or prices charged. Remembering this, it is my opinion that 1947 has seen the peak of concentrated demand and that demand from now on will gradually become more critical and more selective. The price factor has already become a visible deterrent in the housing field.

Following the recession in retail demand in the first six months of this year, over recent weeks there has developed renewed impetus. In my opinion that is based on seasonal factors, plus the recent soldiers bonus distribution, we may well be in what will prove to be the culminating phase of the present inflationary cycle. It should terminate over the next 12 months into a price and production recession of disturbing proportion.

Perhaps this is a good place to recall to your minds—that, two years ago in the winter of 1945-46, all emphasis was on fear of deflation — 8,000,000 unemployed —and you will remember the resultant steps taken by Government. At that time I can't truthfully say that I made the statement that I should fear inflation when the attention became riveted on inflation. I think we are approaching, if not definitely in, that period now. It has already reached the front pages of the newspapers.

One of the arguments for continued boom is the so-called Marshall Plan. The argument is that there can hardly be any deflation in this country if we are going to loan Europe $20 billion over the next four years. The difficulty in discussing it is that the whole thing is as yet so nebulous. This much, however, I think can be said. We have this year experienced an extraordinarily large balance of exports over imports. As you well know, this has not been due as much to buying by Europe as to the same type of post-war inflationary purchasing throughout the world as we have experienced in this country—and we could well have a marked diminution in that buying in the year ahead. That in itself might be sufficient to offset any Marshall Plan expenditures.

Moreover, it does seem from what indications one can glean that we are going to be more realistic under the so-called Marshall Plan in our aid to Europe than we have been in the past two years.

I would think that the overall program will be based on the principal that our food and cotton are reproductive and therefore can be given away, but that our raw materials and the commodities fabricated from them are non-reproductive and drain our national resources. Hence for these, in the interest of national security, there must be some *quid pro quo*, including stock piling of raw materials.

Such a program would not be nearly as inflationary as many now feel—simply looking at a $20 billion lending program.

On top of all this, however, it should be remembered that the whole world today is suffering from the same disease as we are, namely an inflation featured by excessive demand which has brought with it, quite naturally, low productivity and shortages of labor, strikes, black markets and unbalanced production, hoarding and other similar factors.

While, therefore, it might well be that the fulfillment of some program of the nature of the so-called Marshall Plan would cushion a deflationary period, it is difficult to see that it will prevent an unpleasant outcome of current inflationary excesses. What is much more necessary and probable it seems to me, for a period of reconstruction, is a readjustment of over-valued currencies and a readjustment in prices everywhere.

Well, you may ask, what can a business man do? There are many things that we can do and should do to aid not only the general situation but ourselves as well. Inventories should be kept as low as possible, plant expansion—except when it can result in a quick increase in output—should be postponed. Most important, consumer credit should be extended on a conservative basis when restrictions are removed. Unwarranted wage increases should be resisted and every effort made to lower prices. Saving—not spending—should be the keystone of our activities. Save the damn dollars that people here seem to so despise.

Commercial banks, the principal source of credit to business enterprise, should pursue conservative lending policies and exert all their influence to minimize the use of credit for speculative purposes.

In other words, we should stop, look, and listen—and go slow. In my opinion such an attitude and procedure will not only be valuable to the economy as a whole but will in the long run save us individual losses because, once again, the current distorted, top heavy and vulnerable price structure will inevitably result in far-reaching readjustments.

Stock Market Trend

In the stock market, using average prices, we have in the past year experienced three waves of recovery, that which ran from October, 1946, to February, 1947, and which carried such an average as the Dow-Jones industrials from around 160 to 184, that which ran from May of this year into July, which carried from around 163 to 187 and that currently underway which began in mid-September at a level of around 174.

This rising level, as far as bottoms of the recessions are concerned, has caused many to feel that the decline from around 213 in the spring of 1946 to 160 in the fall, represented all the readjustment necessary from the preceding four-year bull movement.

Unfortunately, however, this picture of the averages is not a very good picture of the stock market as a whole. In the four-year bull market, the general body of stocks rose considerably more than the Dow-Jones industrial average and public speculation was much more acute in the stocks outside of that average than in those covered. The immediate result was that, in the 1946 collapse, the stocks which had risen the most and in which public speculation was much more rampant suffered much more, losing from 40% to 75% of their price level as compared with about 25% in the Dow-Jones industrials. That should have brought some substantial recoveries this year.

Actually this year even the Dow-Jones industrials have at no time, as yet, recovered more than half of their 1946 loss. The general body of stocks has done much more poorly. For example, breaking stocks down into 56 individual groups we find that 37 groups, or two-thirds, have not regained even as much as 25% of their losses.

It is one of the strange anomalies of 1947, then, that there has been so much talk about the renewal of the bull market and the great mistake that has been made by those who have followed a conservative attitude over the past year.

As I said a year ago, after such a collapse in prices as was experienced from the spring to the fall of 1946, the only natural and logical thing was to anticipate intermediary recoveries. We experienced such a recovery up into the early months of this year—but the really outstanding feature of 1947 is that, in spite of the sustained boom—aided as it was by the rapidly increasing export boom in the first half of the year—since February, and in face of all the satisfactory earnings, security prices as a whole have made no progress.

Many claim that, based on current earnings, stocks are cheap, that the Dow-Jones industrials, for example, earning at the rate of $19 for 1947 and selling for less than 10 times such earning power, are low.

Such a bullish argument, from a long range standpoint, it seems to me, overlooks two things—first the character of the period in which the earnings are being made. I pointed out initially the difference between this period of prosperity, from a business standpoint, and those which culminated in 1929 and 1937 and its simi-

larity with that which culminated in 1920.

Stocks tend to sell much lower in relation to the earnings engendered in a price inflationary boom than in a non-price inflationary boom.

For example, in 1919-1920, industrial stocks sold for only about 8 to 9 times their earnings while in 1929 and 1937 they sold for between 15 and 16 times their earnings.

In the second place, if we are to get another bull market following current high earnings it will be the first time in the history of the stock market, according to my records, that a bull market has followed, and not preceded or accompanied high earnings.

In other words, what the bulls are now saying is that all that is necessary in order to make satisfactory profits—and by satisfactory I mean 50-100%—is to recognize current earning power.

What real money I have made in the stock market I have made by having faith in the future of American industry when all around me were pessimistic—in other words by buying a stock like U. S. Steel when the company was showing a deficit, believing that within a few years it would show satisfactory earnings.

Now, we are supposed to be able to make satisfactory profits in the stock market by saying that with Steel earnings $13 a share or better in a boom, because the stock is selling for only 6 times such earning power, it has got to go up.

A financial column this morning says: "The steel situation at the moment is crystal clear. The steel mills are producing all the steel they possibly can and there is no chance of consumers either getting what they want or what they have been promised."

This is what I call speculating in the stock market made simple! Wait until earnings boom—and then buy. While I may be crazy, I am not yet ready to accept the viewpoint that it has become that simple to make satisfactory profits in the stock market. I still think it is one of the most difficult things in the world, largely because it requires courage and foresight and patience. Neither courage nor foresight is necessary to say that Steel is cheap at this time, based on current earnings. If the bulls are right, little patience is going to be required because, of course, the stock is shortly going to sell at 15 times that earning power—as it did in 1929 and 1937.

Now, to close this harangue up—except from a purely temporary intermediary standpoint, based on another inflationary fillip—from a sound long range fundamental standpoint, it seems to me that the current environment literally cries out for caution!

The recent rapid rise in commodity prices with its squeeze on consumers, the unstable economic situation in Europe and—something which I have not discussed but which perhaps you have noticed—the recent persistent weakness in bonds and preferred stocks accompanying a rise in short-term money rates and finally the history, which I have tried to cover, of previous postwar inflationary booms, all seem to me to suggest going pretty slowly, rather than trying, on the obvious surface factors, to get rich quickly.

Food Conservation

I have been asked to speak to you about food conservation. I hardly think it is necessary.

It is just as clear to you as it is to me that we are a most wasteful nation—that we throw away much food and meat or allow it to spoil.

To me the irony of the present situation is that if we will only put a stop to this wastefulness, those who will really benefit are not the Europeans, but ourselves. Even those who care nothing about Europe's plight—if there are any such—will in this time of high prices serve themselves well by exercising frugality and abstention.

Anybody that doesn't do it, then, is from a personal dollars and cents and a personal health standpoint, simply a damn fool.

Decries Danger of Canadian Exchange Collapse

(Continued from page 15)

for nation enjoying an overall favorable balance of trade.

(b) Canada's chronic debit balance of payments with the U. S. has been greatly magnified by postwar world economic conditions.

(c) The present shortage of American dollars among other countries with whom we have a credit balance has resulted in a considerable lessening of the supply of U. S. dollars accruing to Canada as a result of current trading.

(d) Canada has an ample supply of U. S. dollars on hand to meet her current deficit but she must take steps to lessen the further draining away of her reserves. As we have stated, Canada's supply of gold and U. S. dollars stood at $1,244,900,000 on Jan. 1, 1947 and it is interesting to note that this figure compares with only $400,000,000 at the beginning of the war and only $175,000,000 in 1942.

It is obvious however, that the present trend cannot be allowed to continue. Canada must find ways of lowering her deficit balance of trade with the United States. At the same time she can hope that present-day international trade conferences, the Marshall Plan and the Monetary Fund will lay a foundation for multilateral trade and convertible exchanges.

In examining the need for re-establishing a balance in world trade we must realize that the underlying cause of the present abnormal condition of world trade is the disruption of European productivity resulting from the war. The United States and Canada are the most important countries whose industrial capacity has not only escape unscathed by the war but expanded as a result of it and therefore the remainder of the world finds itself dependent to a much greater degree than formerly, upon the goods of the U. S. and Canada. Having little to offer in return, the shortage of dollars becomes a common ailment among practically all European countries. Were this condition a normal one, Canada could hope for little change in her receipts of U. S. dollars from Europe. But with the rehabilitation of European industry and the present-day efforts for the re-establishment of multilateral trade, we can expect a return to a more normal basis of world trade.

However, we cannot expect today's world trade disequilibrium to right itself quickly and, in the interim, Canada must take effective steps to improve her own unbalanced trade with the United States. Such plans are now receiving consideration at Ottawa and, with the return of Finance Minister Abbott from the Geneva Trade Conference on Oct. 10, important decisions will be taken by the cabinet and we can expect some basic changes in Canada's policy of meeting the dollar problem.

What are some of the possible measures which may be put into effect?

(a) The Canadian dollar could be devalued. There have been recurrent rumors of this possibility but it is felt that such have been instigated by groups with a vested interest such as the gold mining industry which was caught in a squeeze when the Canadian dollar returned to parity in July, 1946, and which has since been decrying such action and requesting some help. However, government spokesmen have been insistent that dollar devaluation is not the correct remedy and it is now generally accepted that such a measure will not be effected. The Minister of Finance recently elaborated at considerable length upon the fact that dollar devaluation would be ineffective in solving the existing difficulties. It would do little to curtail the flow of imports from the United States for as we will point out later, the bulk of such imports is comprised of petroleum, coal, cotton goods, and machinery and other items basic to our economy. If the Canadian dollar were devalued, rather than decreasing the inflow of these items it would only raise their cost of Canadians and increase the upward pressure on Canada's price structure. As far as exports to United States being increased by such a move, we could expect few effective results along this line. With the high price levels existing in the United States, Canadian exporters already have sufficient sales incentive.

(b) From the figures shown earlier in this memorandum, we can see that by far the most important factor contributing to the tapping of Canada's U. S. dollar reserves is the rapidly expanding deficit in merchandise trade. The figures given below show Canada's imports in total and from the United States for the first six months of 1947:

	All Imports	From U. S.	% From U. S.	% From U. S. in 1938
Iron and Products	362.4	346.9	96	85
Non-metallic Mineral Products	191.8	156.7	80	80
Fibres, Textiles	220.3	140.4	64	35
Agricultural Vegetable Products	173.6	84.1	48	37
Non-Ferrous Metal Products	78.9	59.9	76	70
Chemicals and Allied Products	58.1	51.6	89	70
Wood, Wax Products	45.3	41.9	93	90
Animal Products	47.2	31.3	66	55
Miscellaneous	78.2	68.2	86	70
	1,256.7	980.7	78	64

There can be no doubt that at this time officials at Ottawa are carefully examining the component details of these groups of articles with a view to weeding out luxury or non-essential products or ones which may be purchased other than in the United States. It will prove a difficult task. There are probably many small items which we could refrain from buying from the United States, but their total would amount to very little. The major items are composed of such essentials as coal, petroleum, machinery and cotton products and the importing of these articles must continue or Canadian internal economy will be severely disrupted. Over the longer term, we can hope to develop domestic output of some of these items. The percentage figures above indicate the increase in Canada's dependence on the United States for imports over the prewar period and it would seem likely that with restoration of the world's industrial economy we can hope to increase our purchases from countries other than America.

In considering these figures on imports from the United States we must realize that a most important reason for their increase as shown by dollar values is the very considerable rise in prices which has occurred in the United States since prewar days. Canada must now pay more for her American imports. This rise in prices is shown by the cost of living index which had risen in the United States by June, 1947 to 157% of the prewar (1935-39) figure as compared to 135% in Canada. The resulting effect on the dollar value of imports is obvious. When demand returns to a more normal level, prices should come down from their present heights. This factor in itself should contribute to an effective lowering of our United States trade deficit.

We have pointed out three ways in which Canada can reduce her merchandising deficit with the United States. For immediate results she can revert to greater import and exchange restrictions and for longer term results she can hope for an expanded domestic production of some essential commodities now supplied by the United States. An additional effective measure is the encouragement of imports from soft currency countries to replace goods now being purchased from the United States. This latter measure can to some degree be immediately effective and undoubtedly much of Trade Minister MacKinnon's activities during his present mission in South Africa have been along these lines. Of course, a very important step would be to increase our exports to the United States. At the present time the export to the U. S. of some of our products is restricted and removal of such restrictions could result in a change in our U. S. trade and increase in our supply of U. S. dollars. There are three major disadvantages to such action. The Canadian prices of these commodities would inevitably rise to United States levels, domestic industry depending on such products would be disrupted, and exports to the United Kingdom would be severely affected.

(c) In addition to easing our trade deficit with the United States, we can hope to improve our supply of American dollars by selling more gold to the United States. At the present price of gold much of Canada's potential gold production is being stifled because the selling price of the product is rigid and the cost of production has greatly increased. Some help has been granted in the form of tax relief to gold mining companies but this has not been a very effective measure and plans are now being studied for the further encouragement of gold production in Canada. The adverse effect of war and postwar conditions on this industry can be seen from the following figures which show the complete reversal of the production trend of Canadian gold production. During the period 1931 to 1940, annual gold production in Canada increased 97%, whereas the 1940 output was 88% greater than that of 1946. A return to the 1940 level of gold production could result in an increase in our supply of American dollars derived from this source from $104,000,000 in 1946, to $186,000,000.

(d) When the shortage of American dollars became acute during the early stages of the war, Canada conserved her supplies by a rigid system of exchange control. Since 1944, many war-time restrictions have been dropped. The re-imposition of some of these regulations would further relieve the situation. We have pointed out, however, that Canada cannot expect to cut off many of her commodity imports without disrupting domestic economy, but exchange control which restricts Canadian tourist traffic to the United States could prove a worthwhile help, for in 1946 Canadian travellers to the United States used up $131,000,000 of our supply of American dollars, as compared to the similar figure for 1941 of only $18,000,000.

(e) Finally, a possible measure that could be taken would be a loan raised in the United States. At the present time, little is being said in official circles regarding such an alternative, but it is quite possible that it might be used as a palliative until cures which strike at the base of the problem can become effective.

In order to get a more concise picture of the possible means of improving Canada's current dollar problem, we shall tabulate the measures which have already been discussed.

Some Cures for Canada's Dollar Problem

A. World-wide multilateral trade with convertible currencies, which will be helped by:

(1) The Marshall Plan
(2) The Monetary Fund
(3) The restoration of European productivity.

B. Steps Canada might take to reduce her unfavorable balance of payments with the United States:

(1) Checking the unfavorable balance of merchandise trade: restriction of import and encouragement of exports; increased imports from soft currency countries; development of domestic production.
(2) Increased gold production.
(3) Stiffening of exchange control regulations, especially with respect to travelling in the United States.
(4) Loan raised in the United States.

The problem is certainly a complex one, but Canada has skillful and experienced officials capable of charting the most effective course to be taken. It would appear that in the meanwhile the uncertainty which has developed in the United States regarding the solution Canada will evolve and the resulting decline in the price of internal Canadian bonds in New York has presented the American investor with apparent bargains in good securities.

This is not the first time such a situation has occurred. There were similar fears in New York regarding the Canadian dollar in June, 1940, when Dominion of Canada medium termed internals dropped to 62 with the unfavorable war developments of the time. Five months later the same bonds sold at 79½ to drop again in two months, December, 1940, to 66 with a further uncertainty and in October, 1941, they sold at 82. Today they are selling at 88.

We believe a solution must, and therefore will be found, and whether it be through exchange control, import adjustments and greater gold production or a loan of American dollars, or a combination of these, the present disequilibrium will be corrected and Canadian bonds will respond favorably to the action taken. American investors who took advantage in the past of uncertainties in their country regarding Canada's position should again recognize the bargains in today's market.

Joins Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

NORTH BEND, NEB.—Clinton J. Bauer has joined the staff of Herrick, Waddell & Co., New York investment firm.

With Carl M. Loeb, Rhoades & Company

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA.—Harry Levin has been added to the staff of Carl M. Loeb, Rhoades & Co., 1011 Lincoln Road.

The Tax on Enterprise

(Continued from page 21)

Expert and thorough overhauling of the Federal tax structure would provide adequate revenue for proper servicing and progressive reduction of the public debt and at the same time readjust the tax burden so as to stimulate the business investment processes. You would then witness the spectacle of an inflationary spiral halting in midair.

Wise decisions in the area of government domestic fiscal policy are vital if our prosperous economy is not to head toward disaster.

And kindred fiscal problems loom as formidably in the international sphere where, from considerations of national security as well as humanity, our concentrated attention is needed.

In that regard we are confronted with this fact: World rehabilitation procedure must be maintained on a sound basis if we ourselves are to avoid the desperate plight in which so many peoples of this planet find themselves today.

Federal Fiscal Problems

Federal fiscal problems naturally fall into three general categories, each of which is interwoven with the other two.

First is the question of expenditures.

Second are the necessary revenues, involving chiefly the levying of taxes.

Third is the managemet of the public debt.

During the last session of Congress, public attention was focused on the dimensions of the Federal budget to an extent greater than ever before. This was largely due to the Legislative Reorganization Act of 1946. Under the provisions of that law, the appropriating and revenue-raising committees of Congress were required to meet jointly to fix proper and desirable limits upon appropriations and expenditures.

It is noteworthy that never before had there been a procedure requiring the committees with authority over spending and those with responsibility for raising revenues to coordinate their activities.

There were several reasons why this new mechanism did not operate as smoothly as might have been desirable at the outset. Due to general Congressional committee reorganization, delays were unavoidable. Also there was the factor of shift in party control. Then, with respect to the budget situation, there were numerous uncertainties.

However, in spite of failure to attain complete objectives, notable progress was achieved toward adequate consideration of appropriations. Debates in both Houses were illuminating and the interest manifested by the people generally was heartening.

Actually, very substantial savings from original budget estimates were achieved. The fact that unexpected demands for funds, especially in connection with our foreign commitments, tended in large part to offset these savings, does not detract from the value of what was accomplished.

Individual businessmen, local chambers of commerce, trade associations and other groups whose views were impressed upon House and Senate members contributed in an important degree to reductions in appropriations.

With respect to appropriation and expenditure ceilings, the experience of the last session offers an excellent foundation upon which to build in the 1948 session. There will be better opportunity for early but well-considered action by the Joint Committee on the Legislative Budget. Members and the public generally will be more fully informed.

Members of Congress, as you know, want to follow the wishes of their constituents. But there is a constant pressure upon members by spending groups which as a rule are more vociferous than the economy minded. And, unfortunately, many of these spending groups are business groups, local business interests who in one breath demand government economy and in the next call insistently for the establishment or the continuance of some pet project.

Businessmen have a definite responsibility to their own businesses, to their communities, to business as a whole to let Congress know that they will support reductions in appropriations and will not get hot under the collar when some money-costing plea of their own is rejected.

Forthcoming Shaping of Fiscal Policies

I cannot repeat too emphatically the fact that sentiment of business may well be decisive in the shaping of fiscal policies next session. And keep in mind that crucial issues will be raised next year.

The difficulties ahead for the fiscal year which begins next July 1 may be realized from a glance at the budget make-up for the current fiscal year ending next June 30. Latest official estimates, contained in the President's review of the budget in August, indicate expenditures of $37 billion in the current year. Original budget estimates submitted to Congress in January had called for appropriations which, added to funds previously made available, would have permitted expenditures totaling $37.5 billion.

The President credited Congress with action which would have cut total expenditures by $1.5 billion. This excepted new requirements such as related to the British credit, Greek-Turkish aid and domestic emergencies.

Just why have expenditures not been reduced to a lower level? I think the reasons are obvious. They center chiefly in three items:

(1) National defense,

(2) Veterans' services and benefits, and

(3) International affairs and finance.

The total of these three expenditures items in the current fiscal year is estimated at $22.2 billion, or exactly 60% of the $37 billion total.

This $22.2 billion figure includes $10.4 billion for national defense, $7.5 billion for veterans, and $4.3 billion for international matters. If we add interest on the public debt, an item of $5.1 billion which cannot be cut, and tax refunds, estimated at $2.1 billion, we reach a total of $29.4 billion, or nearly 80% of the budget total.

And so, we find that all other expenditures, representing 20% of the total, amount to $7.6 billion. This figure was the aggregate of all costs of government in the middle '30's.

Also, the $22.2 billion total for national defense, veterans and international affairs, is some $15 billion above the costs for these purposes in the last prewar fiscal year, 1941. The $7.2 billion for interest on the debt and tax refunds is $6 billion more than required for these purposes in 1941. And the $7.6 billion for miscellaneous activities of government is about $2 billion above 1941 costs.

Where Spending Reductions Can Be Made

It would appear, then, that any substantial reductions must come from the the $22.2 billion, although while savings should be possible from the $7.6 billion sum for miscellaneous activities.

We must face realistically the facts of the chaotic international situation. They constitute a major obstacle to reduction in expenditures in the 1948 session. There are compelling reasons—humanitarian, economic, political—why we cannot fail in our sympathetic considerations of the plight of overseas nations. And the American people realize the need to maintain the strong character of our national defense structure.

The sums involved in both national defense and foreign aid are so large as to warrant the closest scrutiny. So, we must recognize the bounden duty of members of Congress, business groups and individual citizens to join in this examination. We seek no shrinking from our commitments. But we do seek assurance that there will be no wastage and that costs be held within limits that impose no excessive burden upon our economy.

This nation recognizes its obligation to the war veterans. At the same time, we must face the fact that such costs are running as much as three times higher than most authorities estimated would be the normal postwar level. This estimate was made as recently as two years ago. In this field of expenditure as well as in others there is need for a review of long-term statutory commitments.

Changing Tax Structure

A tax structure which would develop a maximum incentive to work and save, would yield revenue to balance the budget and make substantial repayments on the debt. And it would be a sorely needed antidote for the inflationary sentiment that is so prevalent.

The technical detail of sound tax revision has been set forth in extensive detail by the National Chamber's Committee on Federal Finance. This study merits attention for its authoritative exposition of points I make here.

Consider, if you will, just one sector of the tax structure—the rates on individual income taxes. This is the sector which Congress studied at its last session. Individual income tax touches directly the problem of incentive for enterprise—the principle of work and save—the element of capital investment.

The current steeply graded income tax rates represent a penny-wise and pound-foolish policy of raising revenue. They are more a device for leveling and reducing wealth than for increasing the revenue yield.

In the upper income brackets, the rates are clearly confiscatory. They violate the principle that a man must be permitted to retain at least a fair part of his earnings if he is to risk money in business venture.

Instead, the tax structure becomes a government proposition of heads-I-win tails-you-lose.

The national Chamber has proposed readjustment of the income tax schedule by lowering the progressive rates so as to provide a maximum total rate of 50%. As it is, at $18,000 taxable income the individual rate passes 50%. At $50,000, 71%. At $200,000, 86%.

One does not have to be in the upper income brackets to realize that with such rates there is little incentive on the part of the individual to assume risks of venture investment and business development. Certainly such rates are not revenue producers. Rather, they discourage individual effort to increase income from which the tax yield might be materially increased.

I believe that even Treasury circles are beginning to realize that lifting the deadening hand of confiscatory rates is essential if the enterprise system is to expand, so as to accelerate the process of productivity.

There never was a time in my memory when the elemental truths about the enterprise system were so pertinent to the nation's welfare as now. In spite of its tremendous productive capacity, American industry is overburdened with overwhelming demands for goods.

It is United States' industry that must shoulder much of the task of replacing or repairing the world wastage brought about by the most destructive of all wars.

Already, our industries are meeting their responsibilities in this respect as evidenced by the record-breaking and still growing outflow of industrial goods to European and other overseas markets.

Moreover, the population of this country has grown by many millions in the last 15 years of under-investment in business enterprise. These were the years during which we experienced continuous tinkering with the Federal tax structure and the almost constant raising of rates which already inhibited the flow of venture capital into new enterprises.

Tax Effects on Investment

Any government that takes too much out of every dollar earned by the taxpayers is going to find those taxpayers less willing to invest. It is not difficult to see that such exaction in peacetime is not conducive to business expansion.

Incentive and the readiness to risk savings in enterprise diminish when the government steps up its take to 50 cents or 85 cents out of every additional dollar of individual income. This may not be killing the goose that lays the eggs but it is very discouraging to her prolific endeavor.

What are we going to do about it? I would urge a return to the rule of hard-headed common sense—the granite foundation for consistent economic well-being and a sound enterprise system. The way is certainly not made easy by emotional slogans and the "soaking" technique applied to a few taxpayers.

The highest price the nation can pay for unsound fiscal policy at the top is an inflation that literally destroys the buying power of the dollar and the savings accumulated through toil and sweat.

So, as I say, the time has come for a complete overhaul of the tax structure. This must be undertaken with a specific objective—to encourage and stimulate the spirit of work and saving.

The sequence should be obvious even to some of our Washington theorists. From work and saving is derived what the nation so urgently needs—increased investment in productive enterprise—more building—more goods—lower-priced products—more utilities—more services—in fact the old familiar endless chain of business development.

The restrictive tax on enterprise is a levy on all who live and gain by enterprise. That literally means everybody. As we can so readily see, the tax on enterprise is paid in the costly toll of inflation.

Congress must write and pass comprehensive tax legislation which will provide encouragement for enterprise. I am convinced the results will be increased revenues for the Treasury—more and lower-priced goods for consumers—more jobs in industry—sounder and more enduring prosperity. And all this without sacrificing one iota of our obligations or commitments abroad.

I am convinced that the tax reduction legislation passed by convincing majorities in the last session had a sound basis—despite the Executive veto. Many people today fail to recognize the fact that current business activity tends to camouflage inherent weaknesses in the economic structure—weaknesses directly due to excessive taxation.

The unfortunate fact remains that, once supply of goods catches up with demand, these structural economic weaknesses will become more than apparent.

There is an accumulated deficiency of capital for industrial expansion. Incentive for investment of risk capital in new enterprises is held in check. And, as we all know, it is such new enterprises that create jobs.

Similarly, the steeply graduated surtaxes on individual incomes destroy the incentive of persons in the managerial group to exercise their natural initiative and ingenuity. When such a man knows that for each additional dollar earned the government may take one-half to two-thirds, he is likely to pause. And the vital spark of our free enterprise mechanism is not kindled.

Per Capita Tax Burden

The per capital burden from Federal taxes is about seven times the pre-World War II figure, and ten times as great as in the decade following World War I.

Opposition to tax reduction has been based on three counts:

(1) Continuing high level of expenditures.

(2) Inflationary tendencies might be aggravated.

(3) Any surplus should be devoted to retirement of the public debt.

I have a strong feeling, however, that the real reason for most of the opposition to tax reduction is an implicit desire to maintain revenues at a level sufficient to support liberal spending programs. I think there is ample evidence to support that view.

And, to some of the tax reduction opposztionists, I say that if high taxes are supposed to act as a check upon inflation, such an effect is not outstandingly apparent at the moment. In fact, I am convinced there would be infinitely greater assurance of production volume sufficient to check inflation if taxes were reduced.

In the matter of concern over debt refunding, it is a new manifestation from those who professed to find merit in the accumulation of public debt over a 16-year period.

Among those favoring tax reduction during the last session, there was unanimity of opinion that relief for individuals should have preference. More persons will benefit from reduction of individual income taxes than through any other change in revenue laws.

And such tax readjustment most certainly will provide stimulus to business as the period nears when activity may be lessened.

Income tax reduction again should be given first consideration when Congress reviews its examination of revenue laws.

Existing discrimination against citizens in states without community property laws should be removed.

Consideration should be given to application methods of the averaging principle to the income of individuals.

Earned income again should be given preferential treatment.

Other Forms of Tax Relief

Other forms of relief from burdensome taxation also are needed. Overwhelming evidence of the injurious effects of many Federal taxes can be found in three volumes of hearings before the House Ways and Means Committee on a general revision of revenue laws. These hearings filled a crowded period of two months toward the close of the last session.

Corporate income taxes still remain at an excessively high level. And taxes on estates and gifts are so heavy as to produce adverse economic effects. Rea-

sonable rates of excise taxes on articles of wide use but not first necessity are essential to supplement taxes upon income. However, excises so extravagant or so inequitably applied as unduly to impede production or consumption should be avoided.

Wartime increases in excises should be repealed, together with the taxes on transportation and levies of a nuisance type which produce relatively little revenue.

The extent of tax reduction hinges, of course, on the amount of curtailment of government expenditures. The latest official estimate of substantial surplus in the current fiscal year provides ample proof that reduction in taxes proposed in the last session could have been effected without incurring an immediate deficit. The surplus would have been sufficient also for reduction of the public debt in the current year.

In the years following World War I, experience showed that the stimulus to business from reductions in taxes was invariably sufficient to offset expected revenue losses. But whether or not this proves true again, full weight should be given to the extent to which existent taxes are a deterrent to business.

Only if the private enterprise system functions without undue interference will it be possible to sustain a high level of expenditures and retire debt.

With respect to management of the public debt, the immediate need is for a Congressional mandate for its reduction in an orderly manner. Reduction of the debt is important, just as reduction in taxation is important. The two should go hand in hand. Reduction in expenditures is prerequisite to their accomplishment.

The debt—close to $260 billion—hangs as a grim shadow over our economy. Trends in prosperity or depression will be influenced by the abnormal monetary supply which the debt has brought. They will be influenced also by taxes collected to pay interest charges and retirement of the principal.

There is no question that devices by which interest rates on government securities were held to exceedingly low levels contributed to wartime inflation. The low level of interest rates has discouraged capital investment in enterprises involving risk. Consequently, the effect upon persons and institutions dependent upon a return from savings has been adverse.

Management of the public debt is largely within the discretion of the Treasury. But prescribing general policies is up to Congress. The program for debt reduction becomes part of the larger plan for dealing with all branches of fiscal policy—including expenditures and taxation.

The task confronting Congress is by no means simple. The new demands for assistance in European relief and reconstruction complicate the situation tremendously. And continued uncertainty as to the peace contributes to the general fiscal difficulty.

Nevertheless, we must drive toward a level of expenditures that will lessen the tax burden and gradually lower the debt.

Let our Congress then give to the nation its cue—not a slogan—its cue to work and save. Let it help with a sensible adjustment of the Federal tax system.

The American people, perhaps more realistically minded today than ever before in our history, are not only ready — they are eager to respond, I feel sure. They are eager to respond with the work and the saving that will infuse a new and irresistible strength into the national economy.

What Is the Outlook For Business?

(Continued from page 9)

only took nine months to spend those 10 years of effort. I am still tired. So when I say that I do know the price conditions, and that I think prices are altogether too high; yet, when you take the national income, which is almost three times what it was in 1933, the savings of the public, and the bank deposits of the public, you will find that they have outstripped the price structure.

I don't know what this price situation is going to develop into. Mr. Wilson of General Electric made a very sensible statement to the effect that he thought prosperity was here for some length of time as yet, that there might be a slight recession, but that we had reached a generally higher price level, which will be maintained for many years to come.

Business Outlook Good

I want to leave with you the thought that it seems to me that by every element of reasoning, these facts that I have brought out to you—the tremendous demand that the American people have for goods and the tremendous purchasing power of America — are the Number One factor in the continuance of high velocity of business. I am not saying whether that is highly desirable or not. It is the Immortal Bard who said, "Sweet are the uses of adversity", and, of course, the only way that you will have a great reduction in the price structure is by adversity, but that would be our economic collapse. Do we want that or do we want to continue in the present high rate of business, high cost of food, high wages, and so on?

I will not enter into a discussion on that, but I will leave it to the economists as to which is the better for the United States; but the velocity of business, in the immediate and rather long range picture, it seems to me, is promising, and I surely agree with what Mr. Sloan of General Motors and what Mr. Wilson of General Electric said in the issue of "Time Magazine", in that they look for no real decline in the rate of business or in the price structure for some time to come. Whether that is good or bad, or whether or not it might be well to have a recession and go on a generally lower basis, and stop this constant upping of wages and prices is another question; but I feel satisfied that the present rate is going to continue for some time to come.

I believe that there are many businesses where prices could be greatly decreased, but one of the things that greatly encourages me is the fact that businesses which could greatly increase their prices have not done so. Take the great business that centers here in Detroit, and which is policed, as I might say, by your President, Mr. Cunningham, General Motors. There is no question—and you can see it in the used car market—but that General Motors, and their competitors, could get greatly increased prices for their products. It is true of a great many other businesses. I credit American business with a great service to the American people in maintaining prices at a fair, lower level than that good old Law of Supply and Demand would permit them to charge if they followed it. They do not. They are selling their products far below what the market governed by the Law of Supply and Demand would permit them to do.

Inflation and Common Stocks

(Continued from page 2)

During the war and post-war years to date we have added relatively little to our real physical capital. That is, we have about the same amount of transportation, industrial plant, utility capacity, agricultural lands, houses and apartments, that we had before the war. Additions have probably not been any greater than the depreciation and obsolescence which has occurred during the past eight years. Of course, our natural resources— iron ore, coal, oil, forests, etc—have been seriously depleted. (In most foreign countries war destruction reduced capacity to produce drastically, thus aggravating the shortage.) When the supply of a commodity is increased sharply with no change in demand, its price in a free market tends to come down. Therefore, should it be surprising that with our aggregate real wealth in physical terms about the same and our money trebled that there has been an uprush in prices? The price, i. e., purchasing power of money, has declined in terms of things for which it can be exchanged.

Now, common stocks are simply shares in a business, which means an equity in natural resources, plant, equipment, processes, research and development activities, etc. The cost of reproduction of all of these assets has gone up—at least 50% above pre-war. Why shouldn't common stocks, which represent ownership of this type of property, be worth more? The answer clearly is that they should. Businesses are operated to make money and a given profit margin working on higher dollar sales should produce more dollars of profit. In the long run, profits should increase proportionately with costs and prices. The table shows that thus far this has been true. It should hold true in the future, so long as the demand holds up. Many businesses—automobiles and agricultural implement manufacturers—are actually curtailing their profit margin, selling their product below what consumers are willing to pay.

III

In the light of the foregoing, it seems quite plain that in relation to prices of other types of property and services, common stocks appear to be cheap. If this be true, then in the long run we would expect the price of commodities and labor to come down or the price of stocks to go up. What are probabilities of occurrence of the former? Considering solely our domestic demand, there is some $100 billion of excess money pressing on a supply of goods which is limited by our present productive capacity and labor supply. An output 75% higher than pre-war is sufficient to take care of present demand. When even a small portion of the public recognizes that goods are not going to get much cheaper and utilize savings and credit to augment current purchasing power to buy the things they need or desire, an even greater upward pressure on prices may be exerted.

Thus, in the face of an actual shortage of man-power and world wide demand for goods of all kinds, any considerable decline in prices and wages is exceedingly unlikely for some time to come.

IV

It has been reported in a reliable financial journal that economists of the Federal Reserve Board believe that the inflationary condition of the economy is reaching the acute danger point and that conditions must get a great deal worse before the (political) courage can be generated to cope with them. It is not likely that the political courage necessary will be shown in an election year. One method of lessening inflationary forces, i. e., a higher interest rate, is practically excluded as an instrument of policy because of the necessity for keeping the huge amounts of Government bonds held by banks from depreciating.

Current developments are almost wholly of an inflationary nature. The redemption of Veterans Terminal Leave Certificates will add over a billion dollars to the money supply and elimination of restrictions on instalment buying will expand small loans further. Although the latter were outstanding in July at over $11 billion, a normal ratio between consumer credit and disposable income would bring about an increase of $4 or $5 billions more. Commercial loans recently have shown weekly increases of over $100 million, indicating a further credit expansion at the annual rate of over $5 billion. At high prices, the needs of business for carrying inventory and working capital increased, thus raising the volume of business loans and new capital flotations. Increasing loans automatically increases the volume of money, thus feeding further the inflationary mechanism now in effect.

The odds do, therefore, strongly favor continuation of the inflation spiral of rising commodity and wage rates.

V

Of course, not all common stocks will do well in an inflation. Many industries and many concerns will encounter serious difficulties. Care must be taken in selection of securities for retention and/or purchase that the subject company has control over its price. Where action of public regulatory body is necessary, as in the case of railroads and utilities, inflationary protection is not good. Although inflation drastically curtails purchasing power of the larger sector of the population, there are areas of business involving necessities for the accustomed living standard of the American people and these services will be the last to be given up. Automobiles, soft drinks, oil and gasoline, building materials, all belong in this list. Companies controlling and producing natural resources should do well. Selected chemicals, because of the growth factor, are in a favorable position. With world shortages of food ahead of us, prospects of the agricultural implement manufacturers are exceptionally good.

The fortunes of various industries and individual companies will change as the inflation develops. There are risks involved. So, however, is there a risk in carrying money and fixed income investments in a severe inflation. It seems safe to conclude that funds invested in selected common stocks at today's prices will do better in providing real purchasing power in the years to come than will cash and high-grade bonds.

Selected Economic Statistics 1939—1947

	1939 Year Ended	1947 (Latest Available)	Per Cent Increase 1947 over 1939
Total Deposits and Currency	$64.1 billion	$165.1 billion	+157
Government Obligations (Held by Individual Investors)	$ 9.8 billion	$ 65.6 billion	
Prices of Commodities (Index No. U. S. Dept. of Labor)	75	154	+105
Non Agricultural Male Employment	30.7 million	42.8 million	+ 39
Aver. Weekly Earn. Mfg.	$23.86	$ 48.46	+104
Production (F.R.B. Index)	120	178	+ 48
National Income	$72.5 billion	*$197 billion	+172
Corporate Profits (After Taxes)	$ 4.4 billion	$ 17.4 billion	+300
Dow-Jones Indus. Aver.	148	175	+ 18

(*) Estimated

The above figures are from official Government sources.

Halsey, Stuart Offers South Jersey Gas Bonds

Halsey, Stuart & Co. Inc. and associates offered publicly Oct. 17 $4,000,000 South Jersey Gas Co. first mortgage bonds, 4⅛% series due Oct. 1, 1977, at 102.17% and accrued interest. The group was awarded the bonds Oct. 15 on a bid of 100.1799.

Net proceeds from the sale of the bonds will be applied by the company toward the payment of the redemption price, exclusive of accrued interest, of bonds of Peoples Gas Co. and of Atlantic City Gas Co., which companies now constitute South Jersey Gas Co.

The new bonds have redemption prices ranging from 105.17% to par and special redemption prices scaled from 102.17% to par.

The company's outstanding capitalization following the sale will consist of the $4,000,000 in new bonds and 550,319 shares of common stock ($5 par value per share).

The company is an operating public utility company engaged principally in the manufacture, distribution and sale of gas in substantially all of Atlantic County, including Atlantic City; major portions of Gloucester and Salem Counties; and small portions of Cumberland and Camden Counties; all in New Jersey.

Business Man's Bookshelf

Divided Korea — Its Economic Resources, Potentials and Needs—Robert T. Oliver — Citizens Conference on International Economic Union, 370 Lexington Avenue, New York 17, N. Y.—Paper.

Export-Import Banking — The Instruments and Operations Utilized by American Exporters and Importers and Their Banks in Financing Foreign Trade—William S. Shaterian—The Ronald Press Company, 15 East 26th Street, New York 10, N. Y.—Cloth—$5.

How to Be Taxwise in Your Security Dealings—Income tax guide designed for investors exclusively — J. K. Lasser — Copies of the booklet will not be sold, but are available upon application to Distributors Group, Incorporated, 63 Wall Street, New York 5, N. Y., which is sponsoring the publication.

International Monetary Fund Should Aid in European Rehabilitation

(Continued from page 7)

(25% of the quota annually) and purposes. However, some ray of hope is given for the future when the Fund may "gradually" increase use of its resources to meet "special and temporary situations."[2]

There will be little doubt that such a "special situation" is on hand right now when the world is faced with the problem of how to bridge the period until the Marshall Plan can become operative next year. The question is whether the Fund may have a job assigned to it to cooperate in solving that momentous problem.

A great many proposals have been advanced to close the gap during the interim period. A well-known financial writer has suggested to exchange American paper currency during the next few months and to force foreign holders of dollar bills to sell them to their domestic governments which, in this fashion, would come into possession of dollar balances estimated at 2 to 3 billion dollars. This, of course, would be enough to close the gap. The only hitch in the proposal is that the foreign owners of dollar notes have no intention to sell them in exchange for their domestic currency but would make every effort to get new bills in this country sooner or later.

Another plan would use part of the frozen balance remaining from the British loan for emergency help to France and Italy. This may well stir up a good deal of resentment in Britain but would add nothing to the dollar pool available to Western Europe during the forthcoming winter.

Can the Fund Help to Bridge the Gap?

The fact remains and cannot be disputed away that the Fund has in its possession more than three billion dollars at this time, which, perhaps, might be made available in part to relieve the difficulties of Europe during the interim period. This question, undoubtedly, should be worth investigating.

It may be divided into two principal parts. First, should the Fund make a contribution from a viewpoint of policy and, second, could it make such contributions under the Articles of Agreement.

The original idea of the promoters of the Fund was to create an instrument to lend assistance in cases of temporary international monetary disequilibrium in order to avoid those troubles and emergencies which characterized monetary developments during the inter-war period.

The Fund was expected to serve as a forum for sober and unemotional discussions that would result in such timely measures as might prevent difficulties from expanding into real emergencies. To accomplish these aims, it was equipped with a large capital to support its recommendations with hard cash. Obviously, the activities of the Fund were expected to be preventive in the first place, to restrict and extinguish a fire before it would break into the open and do any major harm.

However, the Fund has refrained from offering any kind of advice or guidance in connection with the present monetary crisis. If it ever did *in camera* nothing has ever transpired; this would be most surprising in the atmosphere of Washington in view of the peculiar significance of such a move. Therefore, there is a sound presumption that the Fund has failed to make any important recommendation. It is collecting statistics and watching developments.

No doubt, the Fund stands at the crossroads. A decision can hardly be postponed or avoided whether it is to be merely a fair-weather institution (to be carefully protected from all possible dangers and put into wraps until a more "favorable" atmosphere has been created, if it can ever be created in the foreseeable future) or a vital instrument in evening out the ups and downs of international monetary movements.

Whatever the outcome, it will set a precedent for future policies and thus greatly influence future economic and monetary developments. Evidently, the problem is much broader than a decision regarding the policies of the Fund in the immediate future.

An Important Precedent for Fund Policies

The present crisis affects mainly raw material importing countries. They used to pay for them with manufactures but these cannot be produced in the required quantities as a result of war destruction and dislocation. Thus they need foreign exchange to make up for the difference.

In a few years, however, the shoe will be on the other foot. There will be again an excess of foodstuffs and raw materials and danger that their prices may drop as they did during the thirties. Economic conditions in producing countries may deteriorate unless appropriate measures are taken in time.

If the Fund decides now that it has a responsibility in assisting the reestablishment of orderly conditions in international monetary affairs and is not restricted to the role of observer, if it adopts a flexible policy designed to adjust the Charter to the continuously changing requirements of actual situations rather than taking a purely legalistic view, then the precedent will be set for its policies in case of future emergencies in certain sectors of the world economy.

In order to make its policies more effective, the Fund may have to look to groups of countries with similar conditions rather than to individual nations. The various economic systems are too much interrelated to permit separate consideration of individual needs only; but this has been the very policy of the Fund up to now. Dealings on a multinational basis (such as now contemplated by the Marshall Plan) may have a cumulative effect and thus achieve better results than a piecemeal procedure.

The Fund, as provided for in the Charter, should avoid commitments that may result in freezing or tying up of its resources. However, the fact should not be overlooked that there has been a notable shift in interpreting the term "liquidity" in recent years. Commercial banks now grant "term loans" extending over a number of years as a matter of course as long as there is no doubt that the terms of repayment will be met. There is no good reason why the Fund should use any other and more rigid yardstick.

The second question as to the legal possibilities for a more active policy of the Fund can be answered in the affirmative. These transactions can be kept fully within the provisions of the present Articles of Agreement. There is no justification for attempting changes at this time when the Fund has been operating less than a year and has acquired little experience in applying the Charter provisions to actual conditions.

As a matter of fact, the Articles of Agreement are flexible enough to permit the management all the necessary leeway. All that is required is courage to pursue the appropriate policies. There is no need to take refuge behind the Charter as an imaginary obstacle to a more active policy.

Unfortunately, the man who more than anyone else laid the foundations for the international monetary organization is not able any more to interpret its true aims and principles. But almost 40 years of public activity leave hardly any doubt that John Maynard Keynes would have been a protagonist of an active policy of the Fund and would have opposed any attempts to make it a mere spectator in an emergency.

A Practical Proposal

To shift the discussion from generalities to actual facts, a practical proposal will be submitted how the Fund could make its best contribution in connection with the transition period preceding the Marshall Plan. This is not intended to be any patent solution. It is merely one possible way for dealing with an exceedingly important situation. More discussion may bring out more suitable answers and solutions. It is really too bad that the distinguished experts on the staff of the Fund are not being permitted to give the world the benefit of their combined experience but are kept silent as the result of an unfortunate policy decision.

The proposal keeps fully within the framework of the Charter. But it takes advantage of provisions which enable the Fund to amend a number of general rules in case of special need. For this reason, transactions entered into under these amended rules should be separated from regular activities of the Fund, for they will be subject to special terms as to service charges and terms of repayment.

The proposal provides that the Fund should stand ready to sell to all of its members participating in the Conference for European Reconstruction dollars up to 50% of their quota as determined in the Charter in exchange for their domestic currencies. These 50% would be in addition to amounts sold by the Fund prior to the date of official adoption of the proposal. This would be permissible under Art. 5, Sec. 4 of the Charter.

Members wishing to avail themselves of the special facility should so inform the Fund. They would be entitled to buy the respective amounts of dollars in six equal instalments beginning Jan. 1, 1948.

Repayment would have to be made in monthly instalments over a period of two or three years beginning one month after disbursements have started under the Marshall Plan. Members defaulting on their instalments would be excluded from future dealings with the Fund and would have to pay the "regular" interest rates.

Amounts Available Under the 50% Proposal
(In Millions of Dollars)

†Country—	Fund Quota As of 6-30-47	50% Avail. Under Proposal
Austria	*	----
Belgium	225	112.5
Denmark	68	34
Eire	*	----
France	525	262.5
Greece	40	20.0
Iceland	1	.5
Italy	180	90.0
Luxembourg	10	5.0
Netherlands	275	137.5
Norway	50	25.0
Portugal	*	----
Sweden	*	----
Switzerland	*	----
Turkey	43	21.5
United Kingdom	1300	650.0
Total		1,358.5

*Not a Member of the Fund.

†Countries participating in conference for European cooperation.

Eleven among the 16 countries which participated in the Paris Conference on the Marshall Plan are members of the Fund. If all of them should draw the full 50%, the total would amount to 1,358 million dollars, or some 40% of the dollars held by the Fund. However, this is not to be expected for several reasons.

First, a number of countries probably will not need accommodation from the Fund but should be able to provide the required dollars from other sources, such as the Scandinavian group (Denmark, Iceland, Norway) and some of the Benelux countries (Belgium, Luxembourg). Denmark and Luxembourg recently received loans from the International Bank. Second, some countries have made special arrangements with the United States, such as Greece and Turkey as well as Austria, which is not yet a member of the Fund.

There remain only four major nations that would depend on dollars provided from the Fund. These countries (Great Britain, France, Italy, Netherlands) could draw a total of 1,140 million dollars, or about one-third of the Fund's present dollar resources. Britain's share would be almost 60%, France and Italy would get some 30% and the Netherlands more than 10%.

Great Britain should be able to pull through with her share together with the remaining 400 million dollars from the loan and perhaps some additional gold sales. The same should be true for the Netherlands which recently also received a loan from the International Bank and still has large holdings of dollar securities.

Thus if the Fund will do its duty, as it certainly should, the problem boils down to providing additional dollars for France and Italy, to implement the amounts they would receive from the Fund. The minimum required to carry the two countries through the winter was reported recently at about 700 million dollars. On that basis the additional amount to be raised would be about 350 million dollars. This would be on top of the amounts already provided for in recent weeks.

In addition, some of the more fortunate among the 16 nations, particularly the neutrals in the last war such as Sweden and Switzerland and perhaps even Portugal and Erie, should be able to make some contributions of their own either in kind or possibly by subscribing to future bond issues of the International Bank. The latter would be especially true for Switzerland which has more dollars than it can use.

Three other European members of the Fund (Czechoslovakia, Poland, Yugoslavia) did not participate in the Paris Conference and thus would not be eligible under the proposal. The Fund could determine the special conditions under which those nations might be permitted to draw upon their 50% share totaling 155 million dollars.

Special Low Interest Rates

The Articles of Agreement set forth a very ingenious and complex system of service charges. Its purpose was to keep the Fund liquid by inducing members to speed up repayments under the pressure of increasingly high interest rates. However, these considerations would not be applicable under the special repayment schedules provided for by the proposal and, therefore, should be modified within the limits permitted by the Charter.

It prescribes two kinds of charges. First, there is a uniform service charge of $\frac{3}{4}$% p.a. of the amounts purchased levied on all transactions (Art. 5, Sec. 8 (a)). Second, a service charge is due on the average daily balances of a country's domestic currency held by the Fund in excess of its quota for a period of more than three months. It starts with a rate of $\frac{1}{2}$% p.a. and increases gradually in accordance with the outstanding amount and the length of the holding period (Art. 5, Sec. 8(c)).

When the Fund started operating, it held between 75% and near 100% of the quota in each member's domestic currency (25% of the quota had to be paid in gold or dollars but could be reduced on the basis of a member's gold holdings). Thus an increase by 50%, as suggested in the proposal, would bring the holdings to somewhere between 125% and 150% of the quota. The resulting regular interest charges would be considerable with the lengthening of the holding period.

To avoid excessive charges it is, therefore, suggested to fix a special uniform service charge of $\frac{1}{2}$% p.a. on the average monthly balance of a member's domestic currency held by the Fund under the 50% proposal, regardless of the member's quota position or the the length of the holding period as long as the instalments are paid in accordance with the proposal. This adjustment of service charges is permissible under Art. 5, Sec. 8(e) of the Charter with the consent of a three-fourths majority of the total voting power of the Fund. A favorable vote of the U. S. Executive Director would certainly be decisive.

This charge of $\frac{1}{2}$% p.a. on the unpaid balances would be in addition to that of $\frac{3}{4}$% on the total dollar amount purchased which cannot be waived or reduced under the Articles of Agreement. However, this charge would be spread over the whole period of two or three years and the total charges would probably not exceed 1% p.a. on the outstanding amount. Such a charge can certainly not be called prohibitive but should be considered quite reasonable.

All service charges according to a provision which is not subject to modification (Art. 5, Sec. 8(f)) have to be paid in gold. Since the whole charge would be small, this provision would not have any major significance.

In order to keep the administrative expense of the proposal as low as possible, the actual management of the dollar sales (which actually represent dollar loans) should be entrusted to the Bank for International Settlements at Basle as agent for the Fund.[3] The Bank has been in closest contact with the European central banks for more than 15 years, its staff is familiar with European conditions and problems and its headquarters are centrally located in the heart of Europe and easily accessible from all capitals of the Continent. Cooperation with the United Nations European Economic Commission in Geneva could be easily maintained.

There will be many objections, legal, material and others. Indeed, there will always be objections to more active policies by the advocates of more cautious procedures. But it would be hard to explain that in an emergency situation there should be an organization able but unwilling to lend its assistance. Therefore, suggestions for a review of the Fund's policies should be given careful consideration whatever may be the final decision.

2 "Fund and Bank: The First Full Year," by Herbert M. Bratter, "The Banker" (London), September 1947.

3 For a more detailed discussion of the problems of cooperation between the Fund and the B. I. S. see "Future of the Bank for International Settlements and the Marshall Plan," Commercial and Financial Chronicle Sept. 4, 1947.

Herbert Adair in Phila.

PHILADELPHIA, PA.—Herbert J. Adair is engaging in a securities business from offices at Allegheny Avenue and Howard, care of the Artloom Corporation.

Our Current Inflation and Monetary Problem

(Continued from page 14)

supplies of goods that were available or could be quickly made available. The result, when wartime controls were removed, was a sharp rise in prices and the spiral of inflation that is still going on. The sooner this spiral is broken, the better off our people and our economy will be. Also, the nearer at hand will be the goal of sustained high levels of production and employment.

Today, the country's aggregate stock of money and other liquid assets exceed $225 billion, an amount about equal to the total national product. Prior to the war, aggregate liquid assets approximated only $65 billion, or nearly one-third less than total product. Since redundancy of money and liquid assets is a primary factor in the present inflationary spiral, attack on this strategic factor is an essential requirement for breaking the circle of rising prices. The difficulty confronting any such attack, however, is that the existing supply of money and liquid assets is based on public debt issued to finance war.

We can only reduce the volume of Federal debt by having a budget surplus. With a government debt of $260 billion, it is clear that a surplus in any one year will not greatly reduce the total. For the current fiscal year, the President has recently estimated that we may have a budget surplus of $5 billion that will be available for debt retirement. With the further rise in national income that we have been experiencing the available surplus may exceed the President's estimate. But the new budget assumed no reduction in taxes. It also assumed no increase in government expenditures, such as may be necessary to fulfill the nation's international obligations under the proposed program for European relief and recovery. Thus, the amount available for debt retirement this fiscal year may actually be less than currently seems possible.

Reduction in public debt through retirement from budget surpluses will be a slow process at best. Not every year will budget conditions be so favorable as this year. But it is urgent that we use debt retirement whenever possible and that we continue to do so while we are confronted by acute inflationary dangers. In the present situation, this means, of course, that moderation should be the rule to govern any immediate adjustments in our tax structure.

The Problem of Restraining Further Bank Credit Expansion

Six months ago it appeared that post-war expansion in the money supply had been effectively brought under control and that our answer to the inflation problem was to increase production to a level consistent with the existing volume of money. Since business was already operating near full capacity, however, expansion of output appeared to be a time-consuming process. Some price rise, therefore, was a method of facilitating and shortening the adjustment period and could be viewed without alarm.

We attained this leveling off in monetary expansion by using large accumulated balances of the Treasury combined with some surplus from the Federal budget to retire government securities. The retirement program, as you know, was directed particularly at government obligations held by commercial banks and by the Federal Reserve Banks. Retirement of obligations held by commercial banks reduced deposits directly, because Treasury deposits were exchanged for maturing bank-held government securities. Retirement of obligations held by Reserve Banks reduced the volume of both bank deposits and bank reserves. In this case, funds were shifted from commercial banks to Federal Reserve Banks and the retirement of government securities held by Reserve Banks cancelled a corresponding volume of member bank reserve balances. It is true that commercial banks were still free to restore reserve positions by selling other government securities in the open market at rates kept stable by Federal Reserve System policy, and this the banks did in limited degree. But in general the pressure exerted was enough to keep further bank credit and monetary expansion under restraint.

Unfortunately, the control of post-war monetary expansion can no longer be affirmed. The total money supply is currently increasing at approximately $9 billion a year. This increase in the money supply is directly inflationary and is seriously accelerating the upward spiral in prices.

The renewed expansion in the money supply is based in part on increased holdings of gold, largely received by this country in payment for exports needed by other nations. So far this year, the country's gold stock has increased by $1.8 billion and imports of gold are still adding to this stock. This new gold has provided the banks with the reserves necessary to support additional deposit expansion notwithstanding the fact that the Federal Reserve has brought some pressure on reserves by selling some of its holdings of government securities. Deposit expansion has gone on because of heavy private demands for credit from business, property owners, consumers, and State and local governments. During the first nine months of the year, bank loans increased by almost $5 billion, or by almost as much as they increased during the whole of last year. The increase is still going on and, with the momentum being gathered, credit expansion can continue without check for some little time.

Therefore, our inflationary spiral problem is now not only a matter of the wartime accumulation of money and other liquid assets but also a problem of renewed monetary expansion. Since we cannot rapidly reduce the excessive money supply that is based so largely on public debt, the least we can do is to endeavor to restrain further monetary expansion based on private debt creation.

There is unfortunately a fundamental change in the financial situation which handicaps such restraint. This fundamental change is the ability of the banking system to continue credit expansion that the Federal Reserve System is not in a position to offset because of its responsibility for maintaining orderly and stable prices of government securities.

The Board of Governors has given considerable thought and study to the problem presented by this fundamental change in the banking picture and has suggested several methods by which the government securities market might be protected and traditional credit controls reestablished. These methods, which are discussed in the Board's Annual Reports to Congress for 1945 and 1946, are to empower the Federal Reserve to increase member bank reserve requirements (with the exception of raising reserve requirements from 20 to 26% for banks in central reserve cities, the Board of Governors has already applied the present statutory maximum reserve requirements to member banks), to introduce by statute a secondary reserve requirement against demand deposits, or, lastly, to authorize the System to limit commercial bank holdings of long-term government securities. Chairman Eccles, in a recent speech before the National Association of Supervisors of State Banks, has underscored the importance of our changed banking problem and the urgency of finding an effective way of meeting it.

In the absence of authority to deal with the changed banking situation through one or more of these methods, there has recently been some increase in short-term rates of government securities. But the rise in bill and certificate rates has not as yet exerted an effective retarding influence on credit expansion. As you are aware, the sheer size of the $260 billion public debt, the problems of refinancing large monthly maturities, and the role of interest cost in the Federal budget are among the main reasons why short-term interest rates have not been allowed to rise more sharply. Secretary of the Treasury Snyder will announce soon action on the November 1st refunding.

The Responsibility Falling on The Banks

Although the Federal Reserve System is handicapped by its present responsibilities, on the one hand, and by the limited scope of its authority in dealing with the present type of inflationary banking situation, on the other hand, the System will do all it can, directly and indirectly, to restrain further credit expansion. Nevertheless, heavy responsibility devolves upon individual banks to submit to self-restraint. Under present conditions, banks are incurring large risks in private credit expansion and they should be constantly aware of these risks. Banks that conserve their credit resources and stubbornly maintain a high degree of liquidity will have less to regret and fewer losses to write off than institutions that ride the crest of the inflationary tide. This is particularly true for banks specializing in real estate and consumer credit, but it is also true for banks engaging in extensive business and agricultural lending.

A greater alertness on the part of bankers regarding the composite inflationary effects of their individual credit advances can do much to restrain the rate of current bank credit and monetary expansion. It can also do much to reduce the undesirable effects upon banks when inflation comes to an end and is followed, as it inevitably will be, by deflation. To be sure, the business of banks is to make loans and investments which accommodate industry, commerce, and agriculture, and when they discontinue this activity they cease to be true banking institutions. I am not urging banks to deny themselves their proper sphere of activity. They can reasonably be asked, however, to recognize a common responsibility in times such as these and in their self-interest to take double precautions to make loans and investments that are in every respect sound—not only sound in individual cases, but sound as related to the present inflationary economic picture.

Debt Management Policy

If the present spiral of rising prices is to be broken before serious damage to the economy is done, every avenue of public financial policy must be examined for whatever contribution it can make to meeting this key problem. Debt management policy is one of these avenues. Debt retirement operations in the present situation should be as anti-inflationary as possible. This means, of course, that any retirement program made possible by the current budget surplus should focus on the retirement of government securities held by the commercial banks and the Federal Reserve Banks.

As I have said before, retirement of issues held by the Reserve Banks is more restrictive and, therefore, more anti-inflationary than retirement of issues held by commercial banks. (The Federal Reserve now holds $22 billion of Government securities.) This process necessitates the adjustment of reserve positions by many banks. However, any retirement of Government securities held by banks is helpful and in the direction of restraining further credit expansion.

Another important phase of debt management policy would be to increase the sale of long-term bonds to investors and to use the proceeds to retire part of the debt held by the banks. Important banking and other groups have strongly urged such a program and recently the Treasury has taken an important step to implement the suggested policy. I refer, of course, to the new Series A non-marketable investment bonds. Further experience along these lines is desirable.

Maintenance of as high a level of sales of savings bonds as possible will also need to be an essential aspect of an effective debt program designed to help check the inflationary spiral. The vast majority of American families strongly believe that regular saving is important, and more than half of all families think that saving is even more important now than it was during the war. This is one of the significant findings of the Board's recent surveys of consumer finances. It lends substance to the belief that a continuing flow of funds will be available to the Treasury from sales of savings bonds in excess of redemptions, even though personal savings are lower in volume than in war years. The amounts in any one year will probably not be large, but they will help to transfer securities from banks to non-bank investors in accordance with desirable debt management policy. Again, consideration must be given to the use of these funds to retire bank-held obligations in the way that will be most anti-inflationary.

It is clear that debt management policy can serve constructively to check the present price spiral by helping to restrict further monetary expansion. It is clear too that the inflationary situation is serious enough to warrant as much use of such policy as is feasible. The actual working out of policy appropriate to current conditions, is, of course, a highly technical matter. The subject is under continuing study by the Board, the System's Open Market Committee, and the Treasury, and the effective liaison that exists between the authorities assures that every suggestion or alternative will receive careful study and consideration.

Conclusions on Domestic Inflation And Monetary Policies

Economic stability at high levels of employment and output is seriously threatened by the current inflationary spiral. One of the main causes of this inflationary condition is the excessive money supply created by war finance. Expansion in the money supply under the pressure of forces that are largely domestic, but to some extent international, in origin is being resumed. Meanwhile, the demand for available supplies of goods and services is driving prices higher. If the inflationary spiral is to be broken, it is imperative that the world supply of goods and services be expanded as rapidly as possible. Today the greatest available supply of unused resources is in Europe and it should be developed without delay.

Fiscal, debt management, and monetary policies must also be brought to bear on the inflationary spiral.

At least, it is urgent to restrain further expansion in the money supply. Maintenance of a large budgetary surplus is essential for this purpose. This can be accomplished, however, only by holding taxes up and governmental expenditures down as far as is possible under existing conditions.

Monetary policies should be directed to keeping in check further bank credit and deposit expansion. Not much can be done through Federal Reserve policies, however, in the existing situation. Therefore, individual banks have to assume a greater responsibility for credit expansion, to recognize more fully the composite effects of their actions, and to take account more directly of the abnormally high risks that are involved in current credit extensions.

Public debt management policy should be as anti-inflationary as circumstances permit. Emphasis on retirement of bank-held Government securities is essential and every feasible measure for transferring Government securities out of the banks into the hands of non-bank investors should be applied.

The task of breaking the present inflationary spiral through fiscal, debt management, and monetary policies may not prove insuperable. If successful, however, the attack will require the full cooperation with Government of all banks, financial institutions, and businesses. And if it is not successful, our private banking system may once more be the scapegoat in the eyes of the public. First, it may be held responsible for having caused inflation. And second, it may be accused of having caused the collapse and deflation which, if history is any guide to future events, will at some stage inevitably come unless prudent realistic measures are applied in all quarters without delay.

Robert F. McMaster and Others of Staff Join F. S. Moseley & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert F. McMaster, James R. McMaster, Laurence B. McFarlane, Edward J. Billings, Lindsay W. Leach, and William F. Wilson have become associated with F. S. Moseley & Co., 135 South La Salle Street. All were formerly associated with Robert F. McMaster & Co., in which the Messrs. McMaster were partners; Mr. McFarlane serving as manager of the trading department.

N. Y. Inst. of Finance Correspondence Course

The New York Institute of Finance, 20 Broad Street, New York City, has announced correspondence courses on the "Work of the Stock Exchange and Brokerage Office Procedure" and "Investment and Security Analysis."

E. S. Dudley Co., Inc., in Manchester, New Hamp.

MANCHESTER, N. H. — E. S. Dudley Co., Inc., has been formed with offices at 875 Elm Street to act as underwriters, distributors and dealers in railroad, public utility, municipal and industrial bonds, bank and insurance stocks. Earl S. Dudley, Jr. is President and Treasurer of the new firm. He was previously with Merrill Lynch, Pierce, Fenner & Beane.

Inflationary Spirals and the Paris Report

(Continued from first page)

cope with the demand, without the need for any expansion.

Inflation means rising wages, in turn stimulating the use of labor-saving devices. Strong demand is developing for cost-saving tools and gadgets, for better control devices, longer lasting and faster working instruments, and more economical production processes. Growing demand for aluminum to replace steel, for mineral oil and natural gas to substitute for coal, etc., belongs in the same chapter. The backlog of machine tool and steel pipe orders, to mention two lines only, is increasing again after a four-year slide.

This artificially enhanced rate of technological progress means faster obsolescence of old machinery, and further increase in the demand for new. The cumulative result is a vast amount of fresh capital investment being forced into new equipment, raising the demand for labor and materials—and their prices. (Capital outlay in the petroleum industry, in the next two years, is supposed to equal one-fourth of its present total investment.)

The inflationary boom spreads from consumer goods to natural resources and machine tool producers. The higher food prices climb, the more machinery is bought by the farmer, who spent last year $800 million on that score, an all-time record. That means more food "in the long devices, longer lasting and faster run." But in the meantime, it brings a boom to the farm equipment industry that has embarked on a $210 million expansion program, causing more demand for labor and steel and fuel, and more inflation of wages and prices.

(2) This inflationary spiral is no unmixed blessing to business. Typical is the recent experience of most department stores. Last spring, under the influence of the nation-wide hysteria over allegedly serious "consumer resistance" and a threatening "inventory crisis", the stores liquidated their inventories, often at reduced prices. Now, they have to repurchase the wares at higher costs.

Such is the curse of inflation: it produces record operating profits, but burdens business with the risk of inventory losses. As a rule, selling prices cannot be raised as fast as costs go up, with the result that even with an accelerated turnover, stocks have to be repurchased at prices above those at which they were sold. It is a common experience of all inflations: that at their end, or even before, business finds itself without working capital. To some extent it may protect itself against this risk by hedging in commodity futures. But this technique is not applicable beyond a limited number of commodities, and only so long as it is not becoming a generally accepted practice.

Insufficient reserve accumulation is another danger growing out of the cost-price spiral. Provision for obsolescence and depreciation should be greatly enhanced under conditions of full capacity production, and especially in view of rising prices. But it is a common experience of inflations that enterprise does not expect a continuation of the process, or is not able to raise its selling prices as fast as its costs go up. Consequently, its reserves against plant and equipment deterioration are bound to lag behind requirements. Some day it will have to go into the capital market for funds. When the inflation is over, or even before, the simultaneous demand for funds from many quarters reaches urgency proportions, and can then be satisfied only at skyrocketing interest rates, if at all. The danger of capital-depletion is enhanced when recurrent waves of depression propaganda and of governmental witch-hunting tend to mislead business management and to retard the adjustment of its financial policies to the "inflationary squeeze."

(3) The pace of price inflation is being stepped up by world-wide crop shortages. Russia is virtually the only country which this year reports much better harvests than it did last year. But the notorious unreliability of Soviet statistics, especially when political issues are at stake, should be a warning. Besides, last year's crop failure in Russia was so catastrophic that even a substantially improved crop in this season still may be well below average.

The fact is that without very substantial American food exports, Europe would be in the throes of an unprecedented famine. (Widespread famine in the Orient, especially in civil war-torn India, involving millions of lives, is a foregone conclusion anyway.) It should be needless to point out that the food exports of the current crop year tend to raise the price of the American food basket, were it not for the fact that the Secreary of Commerce, Mr. Harriman, tried to cast doubt on any causal connection between them. Apparently, his economics is on a par with the philosophy of his colleague in the State Department, Mr. Clayton, who announced about a year ago that putting $20 billion at the outer-world's disposal "doesn't cost anything."

Of course, if we had surpluses at home, produced and transported at no cost—if labor and material used for their production would not be needed for other purposes — we then could support the world "at no cost" to ourselves. The trouble is that either the things themselves we export, or the resources which go into their creation, are in urgent domestic demand. Virtually every dollar's worth of item exported, unless offset by the import of a dollar's worth of goods, adds therefore to the strain under which the body economic labors. The inflationary fever is the reaction of that body to the strain of excessive demand, full employment, labor shortage, and material bottlenecks.

(4) Spokesmen of the Administration argue that food prices have risen out of proportion to the quantitative significance of food exports. Only 2 or 2½% of our current meat output goes abroad, while meat prices are up by 85 to 100%. True enough, but the argument overlooks the essential relationship between meat and grain. It is by giving away a large share of the grain crop and thereby rasing grain prices that we keep the price of meat rising.

Washington is anxious to put the blame for rising prices on anything or anyone but our "international finance." For political reasons it cannot blame labor either. Business in general and monopolies in particular are the natural scapegoats for all left-wingers. But wholesalers and retailers can point at their costs, fabricators at steel prices, and the steel industry in turn at farm prices. Farm interests answer rightly that wages started to rise before, and went further than, food prices did.

The truth of the matter is that monetary policies are at the root of the problem, not individuals or groups, greedy as they may be. More and more money is pouring into circulation —the uninhibited cashing of terminal leave bonds and the spectacular decline in the rate of liquid savings show where we are heading—and the volume of purchasing power is accelerating its ominous upward trend.

Paris Version of Marshall Plan

(5) At any rate, the Paris version of the Marshall Plan enters the American political scene under very unhappy auspices. Few will doubt the reality of Europe's "need" for another $19.3 billion in the next four years as proposed by the 16 nations conference (plus $3.13 billion from the International Bank). On the other hand, Congress cannot fail to recognize that the visible—governmentally controlled—gold reserves, dollar balances, and other dollar assets of Europe still amount to at least $15 billions. Also, it still could liquidate substantial holdings in African and Latin American assets to pay for imports from those regions. And why not mobilize their "invisible" hoards, such as the estimated $3¼ billion of gold held (illegally!) by the French public alone? And why should we work 5½ days each week to support peoples who refuse to put in an honest 5-day week for their own benefit?

(6) The original idea of the Marshall Plan, as announced by the General on June 5, was that we shall help Europe if Europe helps itself. Now, the report of the European Economic Commission tells us all about our share but comparatively little about their own. They use general phraseology about creating "internal financial stability", "maximum cooperation between the participating countries", customs unions, and the curing of their trading deficits. They are vague, however, on how and when these desirable objectives will be realized or what steps will be taken. In concreto, they promise to raise their output in a number of basic items, such as adding 145 million tons to the 1947 level of their coal production — by 1951, when the Marshall Plan expires. This is the same kind of promise as in last year's Anglo-American loan agreement, which was sold to the American public by dangling pound convertibility and trade barrier reductions before its eyes. With this difference: that this time the promise does not mature within a year, but four years hence, after the Marshall Plan funds are exhausted. If the British Government missed all its goals, why should the 16 European governments do better? What if they will not reach those goals by 1951? Will they not come back, as the British do now, saying that we gave them too little and imposed much too severe conditions which they never should have accepted?

There is little in the Plan that can be interpreted as "strings attached." But its one concrete and positive implication is that the Allies will make Germany work, hoping that she will make up for their own deficiencies.

(7) The high officials themselves, who wrote the Paris Economic Report, obviously do not believe in its promises. The promises of reaching new production goals, financial stability, sound equilibrium, etc., by 1951, hinge on a great "if": **If** Russia will permit normal exchange of commodities between the Marshall Plan countries and the Soviet satellites. About 25% of the essential imports of the westerners used to come from the central-eastern countries. The Paris Report leaves no doubt that unless this trade is resumed, the $22½ billion will not be sufficient to cover Europe's four-year deficit in trade with the Americas. Presumably, another 6-odd billion hand-out will be needed (which is the difference between the $29 billion originally proposed by the Paris Conference and the $22½ billion to which the earlier demand had been whittled down by request of our State Department). But why should Moscow permit the satellites to adjust their economies into the western "capitalistic" sphere? To forego the immense political and economic advantages Russia acquired by having put Central Europe's resources under her control? Generosity for "capitalistic" recovery (to strengthen American influence!) is not one of the Soviet weaknesses.

In other words, the materials and food western Europe used to get from the central countries will not be forthcoming. Therefore, they must be drawn from the Americas, which means that our $22½ billion subsidy will have to be supplemented from the outset by more billions, or else the Marshall Plan and its promises will break down.

(8) It is bound to break down anyway. The Paris Report makes it prefectly clear that its dollar requests hinge on American prices. The $22½ billion will do the job only if American prices do not rise beyond their level last July 1. But they have risen by about 5% already, and the Marshall Plan is short a half billion dollars or so. What if our prices keep mounting, as they are most likely to do? The Report assumes wishfully and arbitrarily that they will actually decline from 1949 on. Obviously, as our prices will go up, the Europeans will ask for more dollars. The more dollars they get and the more they preempt our markets, the more our prices will rise. This vicious circle can be broken only by refusing to pour out more dollars. But then, the 16 nations can and must repudiate their promises.

Originally a reconstruction idea, the Marshall Plan has become another relief program (with a new "intermediary" relief action to precede it). It neither assures an end to Europe's relief need by 1951, nor does it open up vistas of normalized channels for private capital movements over the Atlantic. Moreover, it competes with other relief plans. Our occupational expenditures to keep Germany alive are expected to double this winter. Japan, Korea and China are other prospective recipients. Most Latin Americans are in a very serious financial jam, too, and expect help from us as part of the price to be paid for their co-operation (of questionable value) in the so-called Hemispheric Security. Even Canada may be in the U. S. market for fresh capital.

All foregoing considerations may be overshadowed by the basic problem: the sharp conflict between the urgent foreign need and the burning domestic inflation. Something must be done to cope with the latter, but the one effective method—stopping current credit expansion — is suggested only by powerless banking authorities. Before Congress will consent to rationing measures, to say nothing of re-imposing price controls, foreign spending will be trimmed, presumably, and vital exports (wheat and coal) reduced, risking hunger and trouble in Europe, still leaving space for tax reduction out of the estimated $6.2 billions gross surplus in the budget.

It is a reasonable guess that after long debates Congress will swallow the Marshall Pill, if only on a somewhat reduced scale. It has no choice; our prestige is committed. But "something" will be done about the domestic inflation, too. So far, the politicians look for the easiest escape; asking us to eat less and clamping down on the "speculators." Which is just about what their planless British colleagues do, imposing more austerity on their nation, and canalizing its resentment about the complete failure of planning against the "spivs" and "drones."

Transportation and World Trade

(Continued from page 10)

also electric light and power, iron and steel industries, gas, oil, chemicals, building construction, and allied industries. Under the present British system anyone is permitted to set himself up in business regardless of the effect upon his competitors, and he can establish his own rates without regard to those of his competitors. This poses the question as to just how much regulation, when conducted on the basis of equal justice to all parties concerned, is required for the maintenance of a sound national economy. Under our system of regulation, freedom of enterprise, individual initiative and competition are all preserved in the public interest.

The British Government now is going from one extreme to the other. Under the British Transport Bill, the shipper will not be free to select the kind of transportation best suited to his needs. Privately owned trucks will not be permitted to operate in competition with state operated trucks. And a shipper will not be allowed to drive his trucks a distance of more than 40 or 50 miles from his establishment. Is that the kind of restrictive transportation America wants? That is exactly what can happen here.

Let me remind you that nationalization of our railroads would be but a stone in our economic pool. The circles of government ownership would expand until they engulfed practically all other industries, as they are doing in Great Britain. Under private enterprise, business problems are considered on the basis of economic necessity; under nationalization, they are considered on the basis of political expediency. Nationalization, in fact, has nothing to offer in transportation that cannot be provided by private enterprise. We must be constantly alert to the infiltration of forces which would tend to weaken America's transportation system.

In the interest of our national welfare and defense, no less than in the discharge of our international responsibilities, the development of a sound transportation system demands that proper recognition be given to all agencies so as to permit them to be self-supporting and competitive with each other on equal terms. Only in such a way can America be assured of a fully coordinated system capable of rendering the most efficient service possible at the lowest cost to meet the peacetime needs and wartime demands of the nation. Transportation cannot survive "half slave and half free."

This equality of treatment is no mere ideology of American enterprise. Rather it is one of the fundamental institutions of our democracy. It is the foundation of our economic structure. America's whole concept of individual initiative and liberty is inscribed for posterity in the words of the United States Supreme Court **"Equal Justice Under Law."** We must protect it.

Our effectiveness in restoring world stability and a prosperous world trade can be no greater than our effectiveness in preserving the integrity and the efficiency of our entire transportation system, with each agency considered in relation to its needs and its usefulness. These are our common problems. In their solution, I know that we can count on the intelligent leadership, the resourcefulness, the statesmanship, and the energy of the National Foreign Trade Council. Together we face the future with high faith — faith that our united efforts will lead, both at home and abroad, to an era of peace and economic stability unparalleled in all history.

More of a Price than Production Boom

(Continued from page 17)

Europe wants almost 50% more during the coming year than they were able to get this year. On farm machinery—here again using large quantities of iron and steel—we are told that the European demand is several times what was required during 1947. All you have to do is study the information which is available on these and other items. The daily press is constantly presenting the conflicting views of our experts. Certainly what we do on exports and the amount of goods taken out of our available domestic supply cannot help but continue to be a supporting factor in demand and, consequently, in prices. Watch the international picture—watch Congress. Undoubtedly there will be much heated discussion on Europe's needs. Maybe suitable action and furnishing of funds may come too late to accomplish what those funds are expected to do. If too late, our economy will certainly be affected adversely. On the other hand, if such funds are voted in time, and you can make up your mind that aid to Europe will be voted, food and other goods taken from our supply can reduce any surpluses we might have. Prices on such items will not weaken.

Whether you agree with the government's stockpiling of critical materials or not, the fact that they are beginning to do so, particularly in metals, is not a bearish factor, at least for the next few months.

Labor Supply

Labor supply is still generally tight; it is still difficult to get the kind of labor one wants. There are too many job opportunities, creating a desire to change employment as well as creating absenteeism. Jobs are still too easy to get. People don't have to stay on a job long enough to learn it. All of these things are factors in keeping production down. Until people are willing to stay on the job and learn that job as they should, thereby increasing production, our costs of production will be higher than they should be. I know of a number of industries, including some of the divisions of our own company, in which wage increases granted last spring were pretty generally absorbed and not passed along to the consumer. That is fine as long as the volume of business is good. Every man who knows anything about running a business well appreciates that with reduced volume profits are wiped out very quickly. Undoubtedly many of you men are finding suppliers who absorbed labor increases granted last spring and who made a sincere effort to keep their own prices from advancing who now, because of their own rising costs and in some instances lower volume, find it impossible to go along without some price increases.

Building Activities

Building activities, after considerable reaction early this year due to high costs and with a consequent drop in the awarding of contracts, started out very slowly but began to move upward in slow fashion as the year progressed. That picture has been changed materially since June, 1947, at which time the value of construction again reached the highest level attained during 1946. Construction has increased each month since then, and reached a new postwar high in September. It is expected, based on contracts awarded, that new construction, primarily residences, both of the single and multiple type, during 1948 will reach a higher total than in 1947. The major portion of the pent-up demand is still there, and if wages and prices can be kept in line should continue excellent for months to come.

There are other conditions which should not be overlooked. Weather conditions in 1948 and the resulting crops, whether good or bad, will have tremendous influence on food prices and, consequently, wages. The healthiest thing that could occur for all of us would be an exceedingly heavy crop and lower prices. On the other hand, with bad crops and the continuing demand, both here and abroad, high prices would result with consequently increased demand for higher wages. 1948 is an election year. A recession in business does not usually occur in an election year. Both parties are interested in keeping the prosperity of the country high and will do what they can to keep things humming.

Another thing we must not overlook is the demand for increased freight rates. While the railroads asked for a general 27% increase and have just been granted a 10% temporary increase, the Interstate Commerce Commission still has their full 27% request under consideration. An additional increase to this figure, if granted, added to what has already been granted, would mean an increase of approximately 50% in the average freight rate since the war ended. Here is another important factor which increases costs and creates another upward pressure on prices.

As I write this on Oct. 3, 1947, I read of the uncertainty expressed at the convention of the American Bankers Association being held this week. The No. 1 cause of worry there seemed to be the continued upward movement of commodity prices occurring in recent weeks. This is especially emphasized in the wholesale prices of all foods which have risen almost 60% since price controls were discontinued. This is about double the increase in the wholesale price average of all products other than farm and food products. We must not overlook this important factor. A dollar can only go so far. If foods take an increasingly large amount of it, there is a correspondingly lesser amount left for other items.

While weekly earnings of non-agricultural wage earners were up approximately 67% at the war's peak and have increased since to almost 94% at the end of the third quarter of this year from the middle of 1939, real wages reached a high of approximately 31% at the war's end and have since declined to approximately 20% as compared to what they were in the middle of 1939. This compares with an increase in the over-all cost of living of approximately 58% during the same period. The continuing increase in the cost of food, especially, and the consequent demand for increased wages again exerts an upward pressure on prices. Without question, continued rising prices and rising wages without increased production are not good in the long run —nevertheless, they are here now. Labor's position remains strong and it is doubtful even in the event of a recession that wages will show any appreciable drop. The old saying, "the higher things go, the harder they fall," may still be true—but we are still living in the present.

We must not overlook the fact that we are in more of a price boom than a production boom.

A Slackening of Demand

A survey of more than 46,000,000 spending units in the United States conducted early in the third quarter for the Federal Reserve Board by the Survey Research Center of the University of Michigan indicated that there was a slackening of demand as compared with a year ago, even though incomes are higher. This trend could build up momentum and become extremely serious, but there are factors that should cushion the coming breaks and make it possible for business to absorb the shock and continue prosperous operations in a better balanced economy. The coming price breaks—when they come—will widen the market to include more of the two-thirds of American families in the lower income groups who have many unfilled demands for goods, and who will buy whenever prices appear to be within the range of their pocketbooks. The American consumer market is much larger than prewar based on population increase alone and without considering the higher standard of living of many of our people. The census bureau reports that the nation's population since 1940 has increased 9,160,000. Nine million additional people require a lot of goods and services.

During the past several years, while I have not personally had to try to search for supplies and place purchase orders, I know from our own purchasing departments what their difficulties have been. On the other hand, I have known of additional business which our customers endeavored to place with us and which we could not handle. You yourself no doubt have had to find new sources at one time or another—sometimes they were better than the old; many times they turned out poorly.

Old and New Sources of Supply

One of the things I feel will be advisable when this downward movement in business occurs is the careful evaluation and comparison of the services between your old and new sources of supply. While every period of active prosperity ends with some sort of a letdown—a recession or a depression—nevertheless, those trying periods are themselves followed by periods of better business, increasing demand and difficulty in getting deliveries. An upward movement in business may begin after this letdown sooner than might be anticipated. Before you discard an old source who because of conditions beyond his control could not give you everything you wanted during the past few years, think twice. Be sure that the new source did not take your business because it was temporarily more attractive and taking it at the expense of an old customer who really should have had his capacity. A good deal of that has happened. Finally, use good judgment in determining your plan of action. Don't be arbitrary and throw out your old source who over a period of years served you well and is ready to serve you again.

Let us say something about inventories. That is a present as well as a future problem. This is one phase where purchasing agents will eventually be judged. Management has for months been preaching, "Watch your inventories. This volume of business can't last." On the other hand, you men, particularly those who use certain types of steel such as sheet and strip, know that commitments to meet the estimated requirements of your sales department must be made and orders placed far ahead. There is nothing else for you to do.

I feel that that management is smart which requires its sales, production and purchasing departments to keep in closest touch with one another, not at irregular intervals but continuously. Smart management recognizes this, and its organization is so set up that the purchasing agent or director of purchases and his organization sits in on sales planning meetings. His knowledge as to possible deliveries of materials must be listened to. Heed must be given to his advice. That this is not always true, however, can be evidenced by some of the questions which were put to management in the recent round table discussion on problems of management and purchasing, held at the American Washing Machine and Ironer Manufacturers' Association meeting at Mackinac. I will only mention one of these questions here, but it illustrates the point. The question which was submitted by one of the member purchasing agents was: "Why doesn't management encourage conferences between sales, purchasing and production?" The answer necessarily was that progressive management should head up the purchasing department with a capable man and staff and then use them.

I want to repeat here a statement which appeared in the San Francisco "News" and which was reprinted in the NAPA Bulletin of Sept. 10—you may have seen it, but I think it is worth repeating: "In every corporation, probably no one executive knows more about the outlook for business than the purchasing agent."

Danger of Let-Down

We all know that after each major war we have had shortages, higher production and higher prices—and then a let-down. I know many of you men, with whom I am personally acquainted, went through this same condition or cycle during World War I and the postwar period of years 1920 and 1921. We can recall the quick change from shortages to plenty, and from soaring prices to worrying about inventory and commitments with falling prices.

You purchasing agents must keep in mind that the decline in prices can come very quickly. Just compare the prices of metals in the spring of 1920 and one year later. Even prices of building materials at that time in spite of demand for housing were cut very nearly in two.

I cannot emphasize too strongly the need for watching your inventories. You always get plenty of hell when your factory is short of some items that ties up your production. But you will be criticized plenty as business volume moves down and you are caught with a large inventory. My suggestion is that you know your commitments, watch them carefully and gear them to your sales department's open order balance. Study that constantly.

There are still plenty of items in short supply. Constant pressure for those items above the available supply certainly has had and will have a bullish effect on prices. My advice is—buy what you need, for delivery when you need it. Don't overbuy and don't hoard. If you find your inventories moving up because your factory is not producing to schedule, regardless of the reason—if your finished goods inventory is increasing because of slow-down in sales—speak up and recommend to your management a reduction of operating schedules and a curtailment or at least a postponement of deliveries on commitments. This is a responsibility that is yours.

Gable With Dean Witter

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Norvin L. Gable has become affiliated with Dean Witter & Co., 632 South Spring Street. He was previously with J. A. Hogle & Co. for many years.

With Corbrey & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Booth Waterbury has become connected with Carter H. Corbrey & Co., 650 South Spring Street. Mr. Waterbury was previously with Marache, Sims & Speer.

Soc. for Savings Names Mitchell, Pritchard

CLEVELAND, OHIO—At the regular monthly meeting Oct. 10 the Trustees of Society for Savings elected Byron R. Mitchell and D. James Pritchard to the office

D. James Pritchard Byron R. Mitchell

of Vice President, according to announcement by Mervin B. France, President.

Mr. Mitchell, local resident manager and Assistant Vice President of C. F. Childs and Company, has been active in the Bond Club and various civic organizations since coming to Cleveland in October, 1935. Born in Pittsburgh 47 years ago, he received his education at Carnegie Tech and the University of Pittsburgh. Upon leaving school, he gained experience in the steel business and the electrical appliance field. Prior to entering the investment business, he was manager of the Pre-Cut Housing Department of Montgomery Ward and Company in Pittsburgh. In 1929 he entered the investment banking field, coming to the Cleveland office of C. F. Childs and Company in October, 1935. He has taken an active interest in the Investment Bankers Association, the Lakewood Parent-Teachers Association, and is Past Treasurer of the Bond Club. His principal responsibility at the Society will be in the investment and term loan department.

Mr. Pritchard, who is 39 years old, attended the Cleveland and East Cleveland public schools. He studied at Wooster College, and holds certificates from the American Institute of Banking and the Graduate School of Banking of the American Bankers Association. Formerly associated with Truscon Steel, he joined the School Savings Department of the Society in November, 1929. He has participated on committees of the American Bankers Association, the National Association of Mutual Savings Banks, and is a director of the Financial Advertisers Association and Past President of Cleveland Chapter AIB. A member of the Cleveland Advertising Club and the Cleveland Chamber of Commerce, he has been active in civic events.

Madden Associated With Ketcham & Nongard

CHICAGO, ILL. — J. Arthur Madden, former Cleveland investment banker, is now associated with Ketcham and Nongard, 105 West Adams Street, it is announced. From 1934 to 1942, Mr. Madden was in charge of the Cleveland office of Stifel, Nicolaus & Co., Inc. Prior to his present association, he was a member of the Chicago office of Eastman, Dillon & Co.

Bacon & Vincent in Buffalo

BUFFALO, N. Y.—The Bacon & Vincent Co., Inc., is engaging in a securities business from offices at 1 Ellicott Street.

Stephen Dremuk Opens

Stephen Dremuk is engaging in a securities business from offices at 46 Avenue B, New York City.

Who Makes Prices?

(Continued from page 3)

ployed are quite well known, but in many lines prevailing price systems find little notice outside of the specific industries concerned in the production, distribution, or purchase of the commodities in question.

II

Commonly used commodities of uniform and standard quality, the units of which are perfectly interchangeable, have their market prices in any locality determined either through transactions in a market place, such as an organized exchange, or through the general knowledge of sellers and buyers of the current conditions of demand and supply. There is no essential difference between the two types of markets. On organized exchanges the "bids" (demand) and the "offers" (supply) are registered openly, whereas, in the absence of a specific market place, the "bids" and "offers" are made privately and the registering is done individually. The cumulative effects of the interplay of the same forces are likely to produce a similar psychological reaction on individuals, so that buyers and sellers "sense" what should be the proper price level under the then prevailing conditions. They thereby create a "market."

The adaptability of certain commodities to open or organized exchange marketing requires both standard quality and uniformity of the units. To a far greater extent, however, it is dependent on the quantity and the availability of its production and the universality of its demand. In other words, there must be a relatively large number of buyers and sellers in active competition at the market place. If the producers can diminish or the consumers can increase the supply available at any one time on the market, or if either opposing group is able to withhold offerings or bids indefinitely, the "open" organized exchange ceases to function. It is for this reason that agricultural commodities, such as grain and cotton, which are produced in large quantities and by innumerable individuals and which, moreover, are prime economic necessities, have their prices registered on public, organized exchanges. On the other hand, such useful and standardized commodities as anthracite coal, iron ore, copper, petroleum, and cement, the effective supply of which may be controlled by few producers, have not developed organized market places, though they are widely bought and sold in large quantities.

Notwithstanding the economic advantages of the organized exchanges in furnishing continuous quotations for important articles of commerce, certain practical drawbacks arise from the constantly changing prices characteristic of organized exchange trading. Frequent fluctuations in raw material prices lead to uncertainty of manufacturing costs. Accordingly, producers of the finished goods hesitate to enter into contracts either to purchase their supplies or to deliver their goods unless they can calculate within reasonable limits on their costs and profits. It is largely owing to this reason that certain practices have developed in connection with organized exchange dealings which aim to eliminate altogether or to shift the effects of price instability. "Future trading," "hedging," "short selling," "puts and calls," and other similar transactions, whatever may be their moral or economic effect, are fundamentally devices for stabilizing prices. The cotton manufacturer hedges his purchases of raw cotton so that during the interval required to produce and sell his goods, he will not incur a loss arising from a general price reduction of the finished product that follows lower raw materials. The flour miller, in taking a contract to supply flour at a fixed price for future delivery, insures himself against changes in price of his raw material (wheat) by buying a "future" on the organized exchange. Such transactions, it should be noted, are for the purpose of avoiding speculation, though it is inevitable that speculation on the part of some one is involved. When the cotton manufacturer "hedges" his purchases of raw cotton, he does not eliminate speculation from the transaction. He merely shifts it to another party, just as fire risks are shifted to insurance companies without materially reducing the sum total of fire losses. In place of insurance companies, there is present on almost all organized exchanges a class of traders who for purposes of profit assume the risks of price fluctuations. Regardless of the fact that they are looked upon as "gamblers" and "speculators" or "manipulators," they perform an essential function in the marketing of standardized commodities, particularly on organized exchanges.

Recognizing the economic necessity of future trading on commodity exchanges, within recent years legislation has been enacted to control and regulate but not to eliminate this practice. Congress in 1914 passed the Cotton Futures Act, which aims to abolish abuses that long had been prevalent in connection with exchange operations. A few years later, the Grain Futures Act was enacted which provides for the supervision by the Secretary of Agriculture of the trading in grain futures on the Chicago Board of Trade and other grain exchanges in the United States. Though such legislation may correct some of the evils fostered on organized exchanges, it furnishes no assurance of further stabilizing prices or of even obtaining for producers a larger share of the market value of their output. Prices of grain and cotton will undoubtedly continue to fluctuate continuously, as long as nature is a controlling factor in the quantity produced and as long as no group of individuals can combine to effectively withhold or increase the marketable supply.

III

The market prices of standard graded commodities, which have no organized exchanges or other localized market places, are theoretically fixed through what economists term "the higgling of the market." Such prices, though more or less uniform in a specified market, are not subject to continuous and rapid changes. The price changes, however, though less frequent than exchange quotations, are likely to be more abrupt. If the price trends of such commodities are plotted on a graph, they usually exhibit flat tops, that is, plateaus, in contrast with the sawtooth formations characteristic of price movements of cotton, grain, coffee and securities. One explanation of this contrast is that the price stability exhibited in the "flat tops" is frequently merely a record of *nominal quotations* and not the actual prices at which transactions are effected. It is quite common in many industries to market materials and goods under sales contracts applying to future deliveries. Thus, bituminous coal and iron ore are largely sold under contract arrangements not usually altered by current quotations. Notwithstanding this practice, however, it is undoubtedly true that the absence of an organized exchange for the sale of these commodities causes more abrupt though less frequent price fluctuations than would be the case were the sales transactions effected continuously and openly on a public exchange. Crude petroleum is probably the best illustration. The relative price changes in this important commodity constitute more abrupt fluctuations than are generally experienced in wheat, cotton, coffee or cattle.

The price changes in widely used and standardized commodities which are not dealt in on any specified exchange have been a fruitful source of complaints against monopoly, price agreements and other forms of trade restraint. Coal, iron ore, copper, petroleum, timber and cement have all run the gauntlet of such accusations. The underlying cause is due not so much to formal or secret arrangements among little buyers or sellers, as to the "follow the leader" policy necessarily adopted by competing producers or consumers of the same commodity. The "follow-the-leader" policy is peculiarly adapted to industries having relatively few important producers or a limited number of purchasers and consumers. If a large producer—for example, the United States Steel Corporation, the Standard Oil Company of New Jersey or the National Lead Company—announces a price change, its output being sufficient to substantially meet the demands of the trade, other producers in the same line, in order to protect their business, must under normal conditions meet this competition. Small producers, on the other hand, may cut prices or, at certain times, may make higher quotations, without effecting corresponding price changes by large competitors. This is particularly true when both producers and consumers are aware that the "piker" concern has an output insufficient to materially fill the consumptive requirements. Hence, this sort of price-cutting can be ignored by the trade. "Piker" profiteering is likewise an occasional phenomenon, since in periods of larger demand, it is the small producer who can ask and receive higher than the quoted prices. This situation developed in the steel industry after both the First and Second World Wars and is now recognized under the name of the "black market." Because of the inability of large producers to fill current orders, the so-called "independents" are able to demand "premium" prices from consumers far above the quoted prices of their large competitors. When conditions are reversed, the small concerns will accept contracts at prices considerably below the quotations of the "leading interest." The latter take no effective measures to meet these cuts, since the small capacity of the price-cutters means no substantial reduction to their business.

IV

A prime source of price stability of certain commodities sold under severe competitive conditions is the steadiness or inelasticity of consumption. It is a well-known fact that the consumption of some commodities having an expansive demand can be enlarged through price reductions, while the consumption or the use of commodities having an inelastic demand cannot be materially affected by price changes. Among the latter class of commodities are important articles of commerce, such as coal, salt, cement and, to some extent, copper and petroleum. Anthracite coal is probably the best illustration. The difficulties and expense of storage, together with its limited use (it is used almost exclusively for domestic heating) lead to a close adjustment of output to an inelastic demand. Price changes, therefore, have had little effect on the amount consumed. About a half century ago in the anthracite industry, Mr. Samuel Gowen, the President of the Philadelphia and Reading Railroad Company, failed utterly to dispose of the excessive anthracite output of his company by severe price-cutting at tidewater points. His attempt to keep down the production of competitors by offering them bounties in accordance with a scale of diminished output likewise failed to relieve the unfavorable price situation in the anthracite industry. Accordingly, his plan of producing coal in sufficient quantities to pay the interest charges on an extremely heavy investment of the Reading Company in undeveloped coal properties had to be abandoned. A receivership of the Reading corporation was the inevitable result. Since this time, anthracite prices have not undergone abrupt or erratic changes and, notwithstanding the widespread and frequent accusations of price agreements among the producers, the "follow-the-leader" system of price-making has continuously prevailed in this industry.

Other instances might be cited as affording illustration of the "follow-the-leader" method of price-making. Unlike anthracite coal, however, the demand for certain staples fluctuates according to business activity and not in accordance with changes in supply. The demand at any particular moment, therefore, cannot be materially stimulated through price reductions, because of the difficulties, risk and expense of storage. A single producer may endeavor to increase his sales through a price reduction, but he will reap no permanent advantage, since other producers immediately meet the price-cut and the general consumption of the product is not increased. Hence, it is customary for producers of cement, copper and similar commodities, in which moderate price changes do not affect demand materially, to quote a uniform net price to dealers in the same market. The economic situation with reference to cement prices was pointed out by Dr. T. S. Adams in his testimony at the trial of the members of the Cement Manufacturers' Protective Association, accused of maintaining prices by agreement in 1925. Dr. Adams showed, by reference to the price histories of a number of commodities, that price stability may be the result of balancing competitive forces which neither the producers nor consumers refrain from disturbing. If, through stress of competition or other causes, temporary price adjustments are required, the nominal or quoted price at times remains unchanged, but concessions may be granted through a variety of ways leading essentially to price change. Freight rates have in the past afforded an illustration of these business practices. The making of railroad rates is an extremely delicate and complicated task. When rates have been once determined, both railroad officials and shippers are generally opposed to making changes even when warranted by altered conditions of trade or traffic—hence, the resort in the past to secret rebates, special favors, discriminations and other unfair practices in railroad charges. The history of the steel industry is also replete with periods of deviation from standard price quotations. Manufacturers receive "premiums" in times of acute shortage of products, or accept discounts under their market quotations during dull periods. Considerable secrecy prevails regarding such practices, since if they were widely known or advertised other producers would adopt the same measures and no advantage would be gained by those initiating them. The prime purpose of the formation of "open price associations" a few decades ago has been to eliminate the disturbances to price stability resulting from these underhand methods of price-making.

The general desire for standard price quotations has led to some interesting and peculiar methods of price-making. In the pottery, glass and hardware trades, for example, manufacturers use a uniform price-list. These lists, however, serve merely as a basis for making quotations. Price changes are effected through "discount" under or "premiums" above the "list price." Since competition among the producers of standard wares is severe, the "discount" and "premiums" themselves become uniform. Price-cutting in this and other industries accordingly has taken the form of special delivery privileges, packing allowances, freight rate absorptions and other similar subterfuges to avoid the appearance of actual reductions from quoted prices.

V

It is quite manifest that it is in the interest of producers, as well as consumers, in many industries to promote price stability. Some of the methods which have been used to effect this object, such as the "open price associations," "Gary dinners," market-zoning, pooling of orders, and so forth, have been declared illegal and in restraint of trade. Whatever may be the legal aspects of the problem, however, it is evident to all who have studied the perplexities of fair price adjustments that price stability in the case of standardized commodities sold under free competition is essential to general economic and industrial progress and it cannot be permanently obtained by artificial governmental or private controls, but results from the balancing of economic forces through developed and recognized trade practices, when not inconsistent with public welfare.

One of the gravest dangers of government interference with developed pricing systems is the disruption it causes to industrial marketing. A case of this kind is the attempts being made by the Federal Trade Commission to abolish the "basing point" system of price quotations in the steel and cement industries. This basing point method has been in vogue for a number of years and has resulted in wider competition among steel manufacturers throughout the whole nation, regardless of the location of their plants. The absorption of freight charges by cement manufacturers when competing for distant markets, a practice that has grown up in the industry, is also under attack by the Federal Trade Commission as a collusion to fix prices by producers. But, wisely and well, neither the Courts or Congress seem to favor this attitude of a regulatory bureaucratic administrative agency. For to do so, may mean the abandonment of many existing producing plants, a lessening of competition in certain regions, and a general disruption, bordering on chaos, in established marketing methods.

Francis V. Nixon, Others Join Gross, Rogers Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Francis V. Nixon, Thomas A. Nixon, Howard D. Hotchkiss, Henry Marin and Joseph Sattler have become associated with Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.

The Messrs. Nixon and Hotchkiss were formerly of Francis V. Nixon & Co. Mr. Marin was with John M. Barbour & Co.; Mr. Sattler was with Robert L. Winters & Co.

Fagan & Co. to Admit

Louis F. Kaplan will be admitted to partnership in Fagan & Co., 41 Broad Street, New York City, members of the New York Stock Exchange, on Nov. 1. Irving Herzfeld and Bessie Sherman will retire from partnership in the firm on Oct. 31.

Britain's Recovery Program

(Continued from first page)

tent, by piece-meal aid in the form of loans, relief schemes and subsidies from the Western Hemisphere — palliatives, not cures. Nevertheless it might have prospered had it not been for the disastrous winter of this year, and the formidable rise in prices in this hemisphere, which knocked the patient out again and made it quickly apparent that something more than tonics was needed to meet the challenge of poverty, industrial paralysis and their unescapable political consequences in Europe.

Let us look then again at the situation as it is on this 20th of October, 1947. What was only disturbing muttering early in the year became thunder by midsummer. Strife, famine and pestilence beat upon the doors of Italy and France with loud clamour and now threaten to destroy the ancient liberties, cultures and traditions of those great nations to whose genius you and we owe so deep a debt.

On the other hand, under the stimulus of the idea put forth by Mr. Marshall in June of this year, a very remarkable thing has happened. Sixteen nations of Western Europe have been able to reach agreement on a common effort to restore and to develop together their portion of the Continent and in doing so to help each other.

I wonder if it is fully realized in this country what an immense step forward that is.

In the United States, it seems to me, people are apt to point to their massive Union and ask "why cannot the Europeans get together as we do?" But, it is one thing to build up from a clean beginning with a growing population in expanding territory. It is another to attempt to bring into harmony old established nations of diversified natures, traditions and histories. Their inherited habits, tastes and prejudices all create formidable barriers between them.

For myself, therefore, I draw much comfort from the fact that the Paris report offers us the basis of a new approach to European recovery. Here and there some people tend to grumble because it is presented for Western Europe as a whole. I do not see things like that. Surely the strength — indeed the very essence of the idea—lies in hope in the economic coalition of the 16 states which signed it.

We all have seen that the Paris report raises very wide issues. I am sure that you have heard or are going to hear many speeches about them. For this reason I should like to try to confine myself mainly to the British side of the problem, both as it affects the situation in Europe, and as it affects the American view of Europe.

The British Situation

Please let me narrow the issue still further. It is for you to decide, through debate in gatherings such as these, and ultimately through the Congress, upon what you are prepared to do to bring about the recovery of Western Europe. It would be improper for me to attempt to tell you what I think you should do.

I feel that my job is to do my best to explain how we in Britain are trying to contribute. There is no need for me to recall that the chiefest condition of the idea put forward by Mr. Marshall was that Europe, and my country as part of Europe, should help themselves. My purpose today is therefore to deal with that feature and that feature alone.

Since I have returned from a brief visit home, it has been my lot to read many articles by writers and speakers who have visited Britain and Europe this year. Many of them, I might almost say the most of them, have hard things to say about the European effort to recover from the war. Many of these accounts, which, I am sure, are made with the best of intentions and in complete good faith, have given what I feel to be a mistaken and even unfair picture of ourselves. I say this because I think that it is difficult for people who dwell in the Western Hemisphere to put themselves fairly and squarely into the shoes of those who have lived through the past eight years in Europe. I think they are apt to forget what Mr. Justice Holmes used to call those "inarticulate major premises which govern man's outlook and action." I do not wish to claim anything like perfection for my own people in Britain. They are made of flesh and blood and emotions like any other race. I appeal rather for a greater understanding of ordinary human behaviour.

In all the discussions about industrial output, hours of work, strikes, and so on in Britain and Europe, I think that we are bound to remember the strains and stresses under which the simple folk of all those countries have been living. When you talk of Britain, consider a little the hardships, the fatigue, mental and physical, the rations, the destroyed houses, the scattering of families, and then on top of all this come pleas for higher and higher output from machinery, factories and mines obsolescent by the very dint of war. Then as we look at Europe, we have also to measure the effects of years of occupation on the worker or the farmer. He may have spent the best part of them as a slave in Germany whilst his sons, who have just grown up, were living in the Maquis and facing torture and death if they were caught. Believe me I do not come to you to whine, gentlemen. I only ask that these things should be borne now and then in mind, and that you should not forget, when judging Europe, the ghastly background to the present picture.

Britain Working Hard

How do we in Britain come into the picture? There is a widespread impression that we are not doing enough, that we are sitting back on our hands with our mouths wide open waiting for you to fill them. This is not so. And here I should like to take you back a little and to remind you of what my country has done since the war to help recovery. Whilst indeed we received large credits from you and the Canadians, we have paid out to Europe and the war-shattered areas of the East some $3 billion. This sum, measured on the basis of national wealth, is equivalent to some $14 or $15 billion paid out by you. But I do not wish to press that point.

Let me now glance at two of the major needs of which the Paris report has stressed the urgency. First let me deal with food.

British Agriculture

As you know we neglected agriculture in Britain for over 100 years. We did so deliberately, because under the free trade economy of the 19th century, we built up our prosperity by importing cheap food and raw materials from abroad in order that our manufacturing industry might better compete in the world market. Whilst this had the bad effect of draining our agricultural population away from the countryside to the towns nobody would deny that the nation, as a whole, benefited from that policy. It enabled us to build up that international trade towards which, today, we all cast nostalgic glances. But because we neglected our agriculture, we entered the war in 1939 as an importer of two-thirds of our food. Those first two years of war, until Lease-Lend was started, bit heavily into our overseas investments, and the activities of German submarines forced us to begin all over again with the business of growing food at home.

Nothing that has happened since the war ended has altered our resolve never to let our farming industry slip back into neglect, with the result that today instead of 33% of our food, which was the figure before the war, we are producing over 50% of our food. Or, to put it in another way, we in Britain have increased the product of our farms by one-third, as compared with before the war, whereas in Europe, as a whole, the farms produce 37% less.

Our farm worker, today, has increased his own output by no less than 15%, and our industry uses as much machinery as any in the world. We have to thank you for your help in that regard for you sent us much agricultural machinery, and you helped us generously with seeds under Lease-Lend. But today our production of agricultural tractors has reached 290% of the 1939 figure. To give you an idea of what we are doing in other directions, our cereal production is up by half, potatoes 2¼ times, milk 20%, vegetables 30% and sugar beet 28%, compared with 1938.

To meet the present crisis we intend by 1951 to grow 60% of our food at home. We hope, thereby, to save over $400 million a year in foreign exchange. I am sorry to inflict so many figures upon you, but I am anxious to bring home the great effort which has been, and is being made in our countryside.

Coal Production

Let me now move on to coal. Today fuel is the second most urgent need in Western Europe. We are being severely criticized, I am afraid with some justice, for not making a big enough contribution from our mines. But if you will study the Paris report you will find that as a result of the war, the coal mining industry throughout Europe has shown the most dramatic fall, and that every country that mines coal is experiencing great difficulty in raising output.

Before the war the yearly output of the coal mines of Western Germany was about 440,000 tons a day. When we remember that the Ruhr was mercilessly bombed and fought over, that many installations were wrecked, and something like two-thirds of the workers' homes were damaged or destroyed, the present administration has not done badly in raising the daily output from 30,000 tons to 240,000 tons. But this means that we are still short 100 million tons a year from that quarter.

Now what about the British coal industry? In 1933 we produced 227 million tons of coal, of which we used 181 million at home. The rest was exported or devoted to to the bunkering of ships. Last year we produced only 189 million tons, but during the first six months of this year, despite our paralyzing winter, the output of our mines has been at the rate of 197 million tons. It is that gap of 30 million about which everybody has so much to say.

According to the Paris report, 92% of our prewar manpower is producing 87% of our prewar output. As European coal production goes, this is a better record than that of any other country, but I am bound to say that it is a source of grave disappointment to us in Britain at the present time, as Mr. Bevin has so often said. But our coal industry, though not subject to physical destruction during the war, was grievously affected in other ways.

It is sometimes forgotten that when France fell an export market of some 16 million tons, which we were serving, was cut off at a blow. This forced our collieries to adopt short-time working. It led us into making a capital mistake when we allowed some tens of thousands of our younger miners to leave the industry in order to join the forces. When the war came to an end, and the export demand returned with greater force, we had only 700,000 miners in the industry instead of 766,000. Indeed, the shortage was made worse because the younger men had gone, and we have had to rely on the older men, who bore the brunt of the war, to carry on the industry.

This problem has a psychological side to it too. The coal miners look back with bitterness upon 20 years of severe unemployment between 1921 and 1939. During that time the government and private people alike were at their wits end to discover ways of persuading the miners, rooted to their home ground, to leave the idle pithead and to look for other work. Thus, no one should be surprised that it has been with the utmost difficulty that we have persuaded even some of the miners whom we lost to the forces to return to the pits.

Since the National Coal Board took over in January of this year, a comparatively successful drive has been made to recruit new men for the industry, and in fact they have succeeded in raising the manpower by some 25,000, but many of these have still to be trained.

Owing to the depressed state of the coal industry before the war, when there was no incentive to modernize it, and then owing to the war, when it ended by booming and there was no means of modernizing it, our mines have not enjoyed the thorough-going reorganization they need in order to bring them up-to-date. But now the industry enjoys priority for supplies of equipment. It is intended that output shall be raised next year to 214 million tons, and to 249 million in 1951, i.e., to outstrip our prewar production by some 22 million tons.

For myself I feel pretty sure that as better machinery is installed, and as an atmosphere of improvement and progress is spread throughout the coal districts, the miners themselves will begin to slough the sense of defeat and failure to which they have become so grievously accustomed, and will begin to feel that they are part of an expanding and growing industry, and will show their mettle. Of this I am confident.

Other Industries

Time will not allow me to touch upon the details of other industries in Britain. But I think that visitors to our shores are bound to be impressed by the rapid revival of our merchant marine, by the fact that our ship yards are building over half the tonnage under construction in the world today, 1,877,000 tons of shipping in July this year compared with 780,000 tons in 1938, whilst simultaneously 3,317,000 tons were being reconverted or repaired.

According to the latest figures of the Board of Trade, we are turning out 75% more trucks, 55% more rayon yarn, 26% more steel, 45% more gas and 67% more electricity than we did in 1938. In almost all directions, with the exception of coal and cotton, we are far ahead. The cotton industry is being drastically reorganized under private enterprise, and the latest reports are encouraging.

I could go on indefinitely quoting facts and figures, some more favorable than others, but all pointing to a great deal of solid work under very difficult and trying conditions.

Since the war we have collaborated wholeheartedly with you in promoting the economic projects of the United Nations. In particular, as our Ministers have said again and again, we have tried our utmost to restore a system of multilateral trading in the world. So far did we go, that we undertook to do things under the Loan Agreement which turned out to be too much for us. I claim with all emphasis that we have done more than our full share as good Britains, good Europeans, good friends of the United States and good citizens of the world.

We are still a democracy, thanks be to God. We are as free as ever we were. In Britain you can say in public what you like about the government and your political opponents. If you are a person of importance, what you say will be printed by the newspapers.

Not on Brink of Communism

Very naturally in times like these, when we are in the midst of a bold experiment, controversy turns upon what should or should not be done, and there is no people in this world like the British, with the possible exception of yourselves, for predicting disaster and crying from the housetops about the mess into which their government has landed them. Yet, there are those in the United States who suggest that we are on the brink of communism because His Majesty's Government has nationalized the mines and two or three other industries. It is really such utter nonsense that I do not feel called upon to go deeply into it, except that I should like to remind you that our communists (now numbering some 40,000 in 49 million) were not considered important enough to be invited to the new Comintern meeting in Poland, and that two of the leading members of our government have the distinction of being named as the implacable enemies of that creed.

It is now a truism to say that in the crisis through which we are passing we have no choice but rigidly to economize upon our imports and to save our dwindling supply of foreign exchange. All of us chafe under restriction and control. That is in our nature as it is in yours. But, it is ridiculous to assume that the heavily overworked people who have to administer our controls view them with any more favor than the people who have to submit to them.

Our aims are the same as yours. We have done our utmost, our dangerous utmost, to help less fortunate peoples to fill their poor bellies and to get on to their feet. Like you, we want to see a world at peace, a world in which man can come and go as he likes, talk as he likes and feel secure in his liberties. I am confident that there still lies in us the will and the strength together with our brothers of the Commonwealth and Empire to surmount not only our present perplexing troubles, but even worse troubles should they beset us, and to move on to still greater greatness than we have known and, as in the past, once again to play our part in setting the Western World on the path of progress, material, moral and spiritual.

N. Y. Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

E. Allan Reinhardt will retire from partnership in W. E. Burnet & Co. on Nov. 1.

Abraham Ungerleider, limited partner in E. J. Roth & Co. died Oct. 8.

Ann Putnam Reed, partner in Reed & Co., died on Oct. 10.

Securities Salesman's Corner

By JOHN DUTTON

An experienced salesman should be able to classify a prospect in the first interview. There is no point in wasting time calling on people who do not have the capacity for investment, the inclination to do so, or are already tied up with someone else. A salesman's time is his most precious asset. It is an expensive luxury to waste it calling upon prospects that might be sold someday after you wear yourself out doing it. The only glory in this business should go to the SEC and the politicians. That is what they must have to keep their jobs. If you are a salesman, take the cash and be satisfied with as much of it as you can get. If you do that, you will be O. K.

Here are a few suggestions that you may find helpful in quickly analyzing a new prospect:

(1) **Financial Capacity**—If possible find out before you attempt to do business with a new client whether or not there is sufficient wherewithall to make it worthwhile. If not, listen to his conversation during the first interview. Sometimes club affiliations, friends and business associations will give you the clue. Best indication of all is to allow the conversation to be diverted into a discussion of his views on business, the market and his *specific holdings*. If you find out what a man owns you can tell immediately whether or not the account is large enough to make cultivation worthwhile. Incidentally not all small accounts are unprofitable. *If other factors enumerated below are favorable, small accounts should be encouraged.*

(2) **Personality Traits Peculiar to Investment**—Some people have a one-track mind on several subjects. If a man thinks he knows all there is to know about investments and that no salesman can tell him anything, don't waste time trying to show him that he is wrong. This can be discovered by prospect's attitude and conversation. He often will admit how smart he is and how wrong are most salesmen. Then there is the typical wiseacre who knows all about the securities business. Maybe he was in it once or has a friend in the business. He thinks you make too much money when you sell him a stock or bond. He will accept your information but he will buy from someone else (after he chisels around the market to see where he can save an eighth). He usually pays for his folly in the long run, because no one cares enough about his business to keep him posted after he has made the investment. But you leave him to his own devices—there is little profit for anyone in his business.

(3) **Customer Tied Up With Another Firm**—There are quite a few investors who are so well satisfied with their (established) investment connections that you couldn't pry them loose with the best of offers. Why waste time? The only propitious opportunity for acquiring new accounts that have transacted most of their business with one firm is after a market debacle such as last fall. Even then only the most unstable type of account will change, due to dissatisfaction.

(4) **Clash of Personalities**—For some unknown reason there are cases wherein two people cannot find a common basis for liking each other enough to warrant a business relationship. The psychologists have given us many reasons for this barrier that subconciously arises between some people when they meet. As for the deep inner reasons for this condition of mind we can leave that to the researchers in psychiatry. All a salesman needs to do is to trust to his sixth sense. If you feel that the other fellow is building a wall around himself for some reason entirely beyond your control, shove off to greener pastures.

Selling securities is a personal business. Confidence must be established before a lasting business relationship can ensue. There are people in this world who will meet you half way, keep an open mind as to what you have to say, who are fair enough to want you to make a profit on what you sell them, and who have the means to buy what you are selling in sufficient quantity to make the cash register ring loud and often. These are the only prospects an experienced salesman tries to sell. The others should be scratched off your list AFTER ONE CALL.

Britain Sells More Gold and Gets Fund Loan

On Oct. 20 it was announced in London that the British Treasury has sold another $120,000,000 of gold in the United States and at the same time has borrowed the same amount from the International Monetary Fund to meet the shortage of dollars needed to make purchases in the United States. The gold sale was accomplished by debiting the gold held to Britain's account in the Federal Reserve Bank of New York and crediting Britain with the equivalent amount of dollars. The British Treasury reported that it was shipping more bullion to the United States to replenish its reserves.

The "Queen Mary," which sailed on Oct. 19, was rumored to have $40,000,000 in gold aboard destined for New York. Although Great Britain has been receiving new gold from South Africa, it is believed that its gold and dollar reserves are steadily being reduced and do not greatly exceed $2 billion at present.

Buenos Aires Bonds Called for Redemption

All outstanding $4\frac{1}{2}$-$4\frac{3}{4}$% external readjustment sinking fund dollar bonds of 1935, due Nov. 1, 1975, of the Province of Buenos Aires, Argentine Republic, not heretofore called for redemption, will be redeemed at par on Nov. 1, 1947, through operation of the sinking fund. Payment will be made at The Chase National Bank of the City of New York, 11 Broad Street, or at The National City Bank of New York, 55 Wall Street.

With Chilson, Newbery

KINGSTON, N. Y.—Richard A. Osterhout of Montgomery, New York has recently joined the Sales Department of Chilson, Newbery & Company, Inc., 48 Main Street, to represent their interests in Orange and Rockland Counties.

With S. P. Klapper Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Norman H. Kristel has been added to the staff of S. Peter Klapper & Co., 31 Milk Street.

Economic Reconstruction and Marshall Plan

(Continued from page 6)

inability to resume her place in the European economy, due in part to the division of that country by the iron curtain and in part to the non-restoration of German production. We still have with us calling for immediate attention the problems of relief, of long-term reconstruction, and of the British balance of payments.

Time is not available to discuss in detail how and why these situations have arisen but let me make it clear that the last thing I want to do is to criticize. No men better qualified for their tasks than those now in charge of the institutions in Washington could be found the world over. That emergency relief is still required in Europe must be laid largely to the weather, an exceptionally severe winter and this past summer much too hot and dry. A great friend of mine at the Bank of England told me recently it cheered him up to read the financial history which that institution compiles from year to year and to find that after the first world war economic recovery in Europe was not attained until 1926, eight years after the armistice in 1918.

This does not mean, however, that there has not been achieved in Europe — Germany perhaps should be excepted — substantial progress in the restoration of economic activity. The recovery of transport has been astonishing. Bridges and buildings have been replaced and, though temporary structures are still much in evidence, such effective use has been made of the reduced number of locomotives and cars available that in many countries more passengers and freight are being carried in 1947 than in 1938. The European output of textiles is expected to reach 1,400,000 tons this year, not far behind the estimated prewar production of 1,600,000 tons. Comparing the output of food in physical volume for the 12 months ending June 30 this year with the 1934-38 average we find that in the countries represented at the recent Paris Conference the production of cereals reached 86% of prewar output, potatoes 88%, meat 65%, oils and fats including butter 71%. These are production not consumption figures. The output of fertilizers is already above prewar. Coal production this year, including Western Germany, is expected to reach almost 80% of 1938 (439 million tons). The corresponding estimate for crude steel is just two-thirds, 30.3 million tons.

Present Situation

What then is the present situation? Recovery has gone a good part of the way but for continued rapid progress further outside assistance is essential. The alternative is for Europe to fall back into a situation comparable with the low levels imposed during the war. Europe is producing but not enough to provide a living for its people at reasonable standards, not enough to be prosperous. Unless western Europe with its population nearly twice as great as our own is prosperous the world as a whole cannot be prosperous. Exceptional measures are needed at this time and the program known as the Marshall Plan now is being devised and will soon be debated as a means to meet this crucial necessity.

The scale of the Marshall Plan is continental and planning on a continental scale has never been tried before. My main purpose today will be to lay before you certain lines of attack which strike me as sound in approaching the problems of Europe, but first let me point out certain fundamental facts that must be borne in mind. No two countries are economically alike and, therefore, the task of bringing about economic recovery is never the same in any two cases. Look at countries like Belgium and Holland, side by side on the southern shore of the North Sea. If any pair of countries at first glance would seem likely to resemble each other, here certainly are two. But now let me recall to you these facts. Belgium was liberated in the summer of 1944 and so rapidly that destruction was kept at a minimum. Holland was occupied until 1945 and that last winter of occupation brought the most severe destruction and privation of the entire war. Belgium has coal and largely in consequence, together with Luxembourg, a well-developed heavy industry. Holland has little coal, only recently developed, and no home production of iron and steel. The economies of both countries have had the benefit of important colonial areas in the tropics, the Belgian Congo and the Dutch East Indies, but the Congo is so placed geographically that it escaped enemy attack and its production, greatly stimulated by wartime demands, has continued uninterruptedly. On the other hand, the Netherlands Indies fell under the control of Japan, destruction has been widespread and the resulting political difficulties remain to be fully solved. Further facts might be stated, but these will suffice to show why Holland's position is more difficult than that of Belgium and why the needs of these two countries differ greatly.

Certain other countries are faced with great problems peculiar to themselves and not shared by others. Such are Great Britain and the western zones of Germany, to name the most obvious cases. It is impossible to deal with them separately in the half-hour or so at my disposal. Let me rather try to sketch in barest outline the problems which faced in widely varying degrees at the close of hostilities most of the countries which accepted the invitation of the French and British Governments to meet at Paris and to draw up a statement of their needs which would remain unfilled after giving effect to the greatest possible measure of mutual aid.

War inevitably leads to inflation. There are either military expenses to be met or the so-called expenses of occupation imposed by the enemy. Both involve immense programs of government borrowing leading to great expansion in the volume of circulating currency and credit. In modern war production is forced to its maximum, employment and wages rise to greater heights than ever before, but the goods made available to the public are usually decreased. Let me start with the money side of inflation. The vast funds raised by the government through borrowing are paid out in large part to manufacturers, railways and others. The largest single item to which this money is applied at the next stage is wages and salaries. Some part of it goes on to other manufacturers and producers of raw materials, but they in turn must pay out the greater part of what they receive as salaries and wages. Balances held in the first instance by the national treasury make their way rapidly into the pockets of the public and increase greatly the capacity of people to buy things; that is, purchasing power.

Turning now to the goods and services aspect of the question: It was found early in the war that almost every industry could produce something needed for the national effort and was called upon by the government to do so. It might be anything from battleships to bandages. The output of goods for the consumer, what individuals wanted for their own use, was cut to a minimum. The authorities in control of raw materials and essential supplies sent them where they would be used to make arms and military supplies, not articles for personal use.

These two factors—oversupply of money and undersupply of goods—gave rise to increasing inflationary pressure — the demand of the public with more money to spend each week for goods of all sorts, demand far in excess of the strictly limited supplies. The natural effect would be to push prices sky high and to check this tendency, rationing and price controls are introduced.

But, when money can no longer be used to buy freely what people want, it becomes less useful to have and public distrust develops as to the continuing value of money. Such lack of confidence gives rise to an artificial demand for useful and durable articles and to hoarding by producers and consumers alike. Barter tends to replace the normal process of purchase and sale. Because of the great shortage of goods in Germany these effects are most easily seen there. A manufacturer in Frankfort told me last June that he estimated less than 10% of his product was bought for money at the final stage of distribution. At one time in Germany, during the war, coffee became far more effective than currency as a means of obtaining merchandise and we have all read of how cigarettes became a medium of exchange in that country after it was taken over by the army of occupation. Elsewhere, things have moved in the same direction without as yet going so far except in Hungary, but the point has been reached where those who have goods to dispose of prefer barter to sale.

Barter is such a laborious process, however, that many short-cuts are found—coffee and cigarettes, as I mentioned — but without money which everybody accepts unquestionably, as the effective means of satisfying his own wants the flow of merchandise and commodities in the organized channels of trade cannot and does not take place.

The combined effect of the war effort and inflation on government itself leads to further difficulty. The administrative organization in point of both men and measures must be very much extended and expanded. Aside from armies, navies and air forces themselves, many thousands of office workers are needed for the countless detailed tasks which have to be performed by the organizing and supervising departments of government. Who can begin to remember all the alphabetical organizations required in our own case? This must all be paid for and leads to a similar growth of staff in treasuries and ministries of finance. New sources of revenue have to be found, new taxes devised, enacted and administered.

Inflation creates immense difficulties, but there are others which arise directly from the war effort itself. When industry is called upon to produce wherever possible materials of war and manpower not employed in occupations essential to the prosecution of war is drafted into the armed forces or other essential work, it is inevitable that supplies of all sorts, raw materials, semi-manufactured goods, the end products of industry for all purposes other than war should be reduced almost to the vanishing point. Even in war industries, stocks of all materials and supplies were held as low as the requirements of continuous production would permit. Although the United States felt the effects of war decidedly less than most belligerents, and vastly less than some, we all know that many articles of clothing could be obtained only with much

difficulty until quite recently and so-called consumers' durables—automobiles, refrigeration and so forth—are still in short supply. Household repairs are still difficult to get done and priorities remain in force for certain building materials. Months are needed for deliveries in some lines like agricultural machinery. And in the other belligerent countries shortages are far more serious than with us, hampering the growth of production at every turn.

Problem of Plant Reconversion

A further problem arose from the effect of all-out war efforts on industrial and other plant. It was left badly suited to the needs of peacetime economy if not actually useless for such ends and certain categories of capital goods were in many cases lacking entirely, or nearly so. This situation arose from the conversion of plants to war purposes, inadequate maintenance because men and materials could not be spared from direct production, destruction through shelling and bombing, the final wearing out of machinery through prolonged intense use (with the best of maintenance machines do not last indefinitely), confiscation and removal from occupied countries of such things as railway rolling stock, automobile trucks, shipping on both the high seas and inland waterways and so forth, to say nothing of entire factories which were packed and shipped to industrial centers of the occupying power to make good its own losses through bombing and overuse.

All this taken together is bad enough but when in addition a country had been occupied or the tide of battle had passed over its territory, not only causing destruction and disorganization on all sides, but dividing the country in two, or attacks from the air had disrupted transport and communication, a state bordering on chaos was produced.

This is the point from which recovery had to begin. That production in many countries and many diverse industries had been raised to the extent I explained a few minutes ago is a splendid achievement and it deserves our admiration.

Under such circumstances we cannot be surprised that governments, finding themselves restored to power and responsibility, addressed themselves first to the task of restoring production and providing once more the people's means of livelihood. As I have already said, in this direction a highly commendable measure of success had been attained, but the task of restoration and reorganization has been so vast that many of the essential processes necessary to the ordered life of a modern state have not yet been dealt with. Food, clothing, shelter, fuel and a minimum of raw materials naturally took precedence over the reorganization of the fiscal system in a large majority of cases, not only for the reasons stated but because those in office were faced by political difficulties and to retain popular support the relief of physical hardship had to be put first.

In certain cases public finance has received prompt and effective attention and where this occurred there has been avoided what constitutes today a major problem elsewhere. The end of hostilities failed in many cases to bring an end to the inflation and next to the loss of life and the impoverishment of society through the destruction of property, inflation and its effects are to my mind the most serious consequences of war.

Now what is the position of a government whose country has reached a state resembling in substantial measure that which I have described? From all sides come demands that the budget should be balanced, but this has probably become impossible. High tax revenue depends upon a large volume of industrial, agricultural and other production, with its products finding their way freely to users and consumers. Hard-pressed treasury officials complain that production and trade must be restored before they can collect the revenue necessary. But government must continue its activity and the expenses must be paid. This, in the absence of adequate revenue, can only mean further inflation which more and more impedes and discourages active and normal business. It is a vicious circle which must be broken. If this is not done a complete currency collapse will in time occur. Many of you will recall how the German mark fell between 1914 and 1924 from about 24 cents to a point where small change was millions and the new mark created under the Dawes Plan was introduced in exchange for a billion of the old ones. Things have gone to that length in only a few cases, however, and foreign intervention at an earlier stage proved successful in the case of Austria after the first World War. Under the Austrian plan worked out by the Financial Committee of the League of Nations, money was provided to cover the budget deficit during the period needed to introduce fiscal reforms and bring the budget into balance.

I have taken so much of your time in talking about inflation and its effects because of their importance and because this subject is so little understood in its connection with the problem of economic reorganization. It is easy to see that to produce steel bridges, for instance, there must be blast furnaces to convert ore into pig iron, other furnaces to change pig iron into steel, rolling mills, fabricating shops and so on. It is easy to see that to transport goods by rail, locomotives and freight cars are needed. But it is not so easy to see that for the complicated economic life of a modern industrial nation to continue under its own power, to sustain itself without assistance from foreign sources, there is needed stable money in which people have confidence and for this orderly public finance is indispensable. By that I do not mean that all government expense must necessarily be covered in full by tax revenue, although that is highly desirable, but if borrowing is necessary the money should come out of genuine savings and not from an inflationary expansion of bank credit.

With that I have perhaps succeeded in giving you some idea of the state of affairs to which the Marshall Plan if it takes practical form will have to be addressed. The specific purposes to which the assistance granted is to go can now be considered. But let me stop for just a moment to say that in using the term "Marshall Plan" I have in mind only the purpose of reconstruction. Conditions may require emergency relief measures to tide over a period before all the plans which must precede reconstruction can be worked out. As I am using the expression, "emergency relief" does not constitute a part of the Marshall Plan. Let us then look at the ends to which assistance in money or in goods and commodities should be directed in order to bring about reconstruction at this time. The list could be set out as:

Food: supplies and raw materials, including fuel: capital goods and, finally, a certain quantity of *money*.

The need for food is obvious. Western Europe is now cut off from eastern Germany and the Danube basin, two regions which in the past regularly provided large quantities. Until new sources can be developed Europe can turn only to America. The drought of last Summer has aggravated the shortage. Still, human beings must eat and so must animals. In certain countries, such as Denmark, the needs of mankind can be largely met from domestic sources, but the cattle in the highly developed Danish dairying industry require for full production concentrated high-protein foods in the form of oil cake of various sorts from abroad. Much the same is true of Switzerland. Let us think of food as needed by both man and beast, although feed for livestock might perhaps equally well be considered a raw material. The total requirements of foods and feeding stuffs during the 12 months ending June 30, next, are stated in the Paris report as 41.3 million tons.

To describe the second item I used the expression "supplies and raw materials, including fuel." In addition to labor applied through tools and machinery to convert raw materials into countless manufactured articles, a variety of supplementary materials and commodities are needed in order to carry out the processes of industry, agriculture and so on—fuel from which power and light, as well as heat, are derived, lubricants, abrasives, fertilizers, dyes, finishes and dozens more. Then there are the raw materials themselves to be turned into finished products. The expression I used, "supplies and raw materials, including fuel," covers a multitude of items which constitute the bulk of what is needed, in addition to plant, in order to increase production. The estimated value of this category of imports for the period 1948-1951 is given in the report of the recent Paris Conference as $17.5 billion. This is the figure for total imports which substantially exceeds what the United States is asked to furnish.

But here an important point arises. The cost of all factors necessary to production except labor do not, speaking very roughly, come to more than 60% of the value of the finished product. This varies of course from one industry to another, but the figure of 60% is a fair average and will serve the purpose of illustration. That means, even if everything except labor comes from abroad, only 60% of the finished merchandise need be exported to replace the supplies and raw materials utilized. The remaining 40% of the finished product can remain for the home market after the amounts due abroad for raw materials have been paid.

The we come to the third item: *Capital goods.* I spoke earlier of how the capital equipment of Europe has suffered through destruction, through being inadequately maintained and being worn out, and through physical removal. In the first instance, this must be made good, but the Paris report goes further and gives estimates for the modernization of European industry. Electricity and petroleum products will be needed in much larger volume than before the war. To this end the proposal is to expand electrical generating capacity by 25,000,000 kilowatts or by two-thirds and that of oil refineries to 2½ times prewar capacity. These strike me as big undertakings, but that impression loses much force when one realizes that today the United States is using four times as much fuel and power per capita as Europe. Before the war American consumption was 2½ times that of Europe. The plan would expand oil refining more than any other industry, but would bring per capita consumption in Europe up to only one-sixth of what it is today in the United States. Probably no further comment is needed on this point which leaves us with only the final and most difficult topic of *Money.*

Perhaps you will remember that when referring to wartime and postwar inflation, I mentioned the need of funds to cover the expenses of government during the period necessary to reorganize government finance. Where is the money to come from which will enable a national treasury faced with insufficient revenues to meet its current requirements? In a number of countries this money is being made available in the form of direct or indirect advances at regular intervals from the Central Bank and this, of course, strengthens the forces of inflation. How can this be stopped? The reconstruction program itself presents the chief opportunity to do so. When any form of needed goods, supplies or commodities are received in a country requiring assistance, they should be sold to those who are to use them or distribute them further. This is facilitated by the fact that under conditions of inflation there is an abundance of liquid money in circulation. The proceeds of such sales being received by the government should make it possible for drafts on the Central Bank to be greatly reduced or stopped without great delay and the primary direct cause of inflation will have been eliminated. Drastic measures of economy may also be needed, but nothing is more important in a program of economic reconstruction than to check, as promptly as possible, the use of Central Bank credit to meet current government expenditure. Thus, the vicious circle previously described, can be broken and the expansion of the credit structure checked. The undertaking of the French Government to balance its budget, as given in the Paris report, is an immense step in the right direction.

There are, however, needs for money outside the domestic economy. The havoc of war and inflation have led to the so-called "dollar shortage," meaning the exhaustion of working balances in hard currencies, particularly U. S. dollars. These balances must be reconstituted and funds for that purpose must be provided.

In addition, the question of currency reserves must be dealt with. Until some reasonable degree of economic stability can be attained it will remain impossible to see clearly what patterns in the field of international monetary relationships will result from the play of economic forces under postwar conditions. It is likely, however, that gold will continue to be used to settle international balances. This went on during the war and it goes on today. Gold currency reserves have by no means disappeared outside the United States, but in certain places they may need to be strengthened. This is another purpose for which money outside the domestic economy of a badly weakened country may be needed.

I have tried to trace in outline first the economic effects of war in the countries most severely stricken and to describe the imperative needs to be met in the course of reconstruction. Secondly, I sketched the means of meeting these needs and finally sought to explain how money entered the program and the ends for which money needs to be used other than for the purchase of merchandise and commodities and the payment of incidental costs such as shipping, insurance, storage, rent, salaries and so forth. Now, I want in closing to call to your attention the major general objectives to which the minds and efforts of those engaged in such efforts as these must be directed and how the steps suggested will lead to their attainment. First, *production:* Obviously a country must seek to make use of all it has in men, plant and natural resources. The steps suggested the delivery of supplies and raw materials needed to set the process in motion and to sustain it for a time. In addition, the provision of plant to extend and improve production was proposed. But production will not take place and goods produced will not pass into channels of trade unless steadily and rapidly mounting prices can be halted. The second major objective is a stable price level. The same thing can be said by stressing the necessity for a stable value of the currency. I do not mean to imply that a stable level of prices is less important than full production. Reasonably stable prices are perhaps the core of all that we seek to accomplish.

Having once reached a reasonably steady level of prices, it becomes possible to relate it to the price levels of other countries and to fix exchange rates which accurately represent the relative values of currencies, that is the exchange rates which do not unduly favor or obstruct either exports or imports.

As a fourth objective, let us look at wage rates. Having checked the inflationary spiral and steadied prices, an equitable level of wages can be worked out high enough to maintain a large volume of purchasing power in the hands of the working population but low enough to allow the employer the profit to serve as his incentive to produce.

The question is bound to arise: How can all this be accomplished without interfering with the domestic policies of the countries concerned? Would it not require intervention which is contrary to the policy of our government? I do not think so and I hope I can make this point clear. The first suggestion of what the world has come to know as the Marshall Plan was contained in the declaration made by the Secretary of State at Harvard on June 5. Those words bear directly on that point. The Secretary said, "The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so." Those words indicate only a disposition on the part of this country to cooperate in the preparation of a plan and—using Secretary Marshall's words—"so far as it may be practical for us to do so" to support the plan so worked out. Sixteen countries, in response to this suggestion, have now put forward a plan which seems to cover all the points which I have taken up. I cannot imagine an approach to a critical situation or a response to such an approach which disclosed less a spirit of deliberate intervention.

There is just one more point I wish to make and with that I shall close. In certain parts of Europe food is woefully deficient and fuel for purposes of comfort almost entirely lacking. And there is open to the unfortunate people of such areas no means whatever whereby they can improve their conditions of life and alleviate their sufferings. Under such conditions, it is inevitable that their output falls far below that of individuals leading normal, happy lives. Discouragement and hopelessness render them incapable of sustained effort. "Without hope the people will perish." The Marshall Plan is directed to the cure of economic ills, but it has a second equally important purpose, to restore hope and confidence to millions of suffering human beings so that they may again feel the comfort of well-being and enjoy the blessed sensations of peace and happiness. Once restored to a state approaching what we would call normal, they will be able to make their contribution, as producers and consumers, to the welfare of us all.

As We See It

(Continued from first page)

abstinence programs suggested by the powers that be is another. The general lack of enthusiasm anywhere—which one can sense even if one cannot prove it with figures and charts—is possibly the most convincing of all.

Why this reluctance to proceed as requested, or possibly better put, this relative indifference? The American people are notoriously generous in their gifts to the needy, whether within their own midst or in other lands. One or two obvious explanations come at once to mind. This is charity on an astronomical scale that is being sought. It requires in real fact a practice of "giving until it hurts." It may be questioned whether the people of this country were ever before asked to do so much for humanity elsewhere. Heretofore gifts requested — and usually granted freely — could be made without extensive sacrifice on the part of the giver. This demand for extraordinary generosity comes, too, at the end of a substantial period during which most individuals had perforce to defer many kinds of expenditures for their own comfort and convenience. It comes, too, at a time when the great rank and file have the wherewithal to buy what they want (that is, if they can find it at prices which do not rob them of most of their purchasing power) in a degree perhaps never experienced before.

Not Adequate Explanation

But all these facts and others of a similar sort which might be listed seem to us to fail by a wide margin to explain the current situation. We are certain that there is much more involved. It may be instructive to inquire what else there is that causes the ordinary man in the United States to remain so indifferent to the situation as it exists in Europe and Asia today.

First and foremost, we suspect that the rank and file simply do not believe reports which come out of Europe about conditions there. We confess to a feeling of the sort ourselves. These accounts often seem much too greatly at variance with production statistics as compiled and regularly published by the United Nations and, for that matter, by the governments of a number of the countries involved. At least some of these countries are plainly producing more than they did prior to the war.

It is true, of course, that destruction during the war was very great. Stocks in many instances are doubtless very low. Crops have not been good this year in many sections. It may be conceded, indeed it must be conceded, that there are spots here and there, doubtless substantial areas, where the population would be subjected to severe hardships this winter without help from outside their own districts. It is, however, beyond question that there are many other areas where the people are as well off as they have ever been in their lives—in some instances, doubtless, better off. We are quite certain that if supplies already within Europe and being produced there were distributed as evenly as many of the reformers in this country would have ours distributed, need for outside aid would be very much less than it is now declared to be. But whether we are right or wrong about this, we feel confident that there are a great many people in the United States who have just such doubts as these.

Again, we are convinced that common sense has long ago aroused suspicion in the average mind that, a good deal of such suffering and hardship as does exist in Europe today, is due less to the war than to the postwar policies and programs within the countries in such allegedly dreadful need and on the part of the victor powers. For our part, we can not find it in our hearts to condemn the American who can see no reason why he should do without it in order to enable any country to nationalize its industry, or to enjoy the luxury of a life-and-death internal political struggle whether about communism or some other sort of "ism." We do not see how any one can doubt that such things as these are responsible for much that is currently complained of in Europe and China today.

Germany in Irons

But there is another aspect of the situation. By virtue of the policies of the victor powers, most countries of Europe are under the handicap of trying to recover their normal economic status with Germany virtually in irons. Some of the more extreme nonsense about converting Germany into an agricultural nation, and about denying her the right to any sort of industry which could be converted to the conduct of modern warfare, has apparently been permitted to die down, but no one can doubt that most, if not all, the countries of Western Europe — and probably also those of Eastern Europe—are suffering today in large part by reason of the fact that they are under the necessity of restoring themselves in an economic ecology quite foreign to their histories. In some degree this situation is a part of the conflict between Russia and the remainder of the world, but it is also in large part a matter which Britain, France and the United States could readily rectify if they would.

Finally, we suspect that the ordinary American, endowed as he is with common sense, is deeply dubious about this competition in bribery we apparently are engaged in with Russia. There is no reason to doubt that many countries in Europe are flirting with "ideologies" that are distasteful to us. Some of them are communistic in nature and some are not. But the notion that we can keep right on indefinitely bribing them to turn their backs on these notions must seem to many Americans as just a trifle naive. We know it does to us. The suspicion is abroad that an appreciable part of the "dire need" in Europe today—as told by many of our political leaders—is the supposed need of a bribe to keep Europeans "democratic."

The American people today are skeptical, not ungenerous. They want answers to many questions. When they get them, and if they are satisfied with them — well, the story will or would be different.

International Bank and Increased World Output

(Continued from page 18)

restoration of its industrial and agricultural productivity.

In addition to what the previous speaker has said regarding the needs of Europe for food, for materials to run its industries and for the restoration of financial stability, I would like to emphasize a few additional factors affecting recovery.

Europe's Bottleneck

Manpower is a bottleneck of Europe. There is a shortage of labor to perform the urgent tasks. This shortage could be met in part by more efficient utilization of labor, by reduction of the number of people unnecessarily employed in governmental and other nonproductive pursuits, and by a greater mobility of manpower, in part across national borders. Moves toward the solution of this problem must be made by Europe itself; the problem cannot be solved by loans from America.

The requirements for capital goods to rebuild, modernize and expand productive facilities constitute the field in which the Bank is most concerned. Even for this category of requirements our funds cannot be sufficient to do more than fill the most pressing needs. The estimate in the Paris Report on the Marshall Plan is that $3.1 billion of industrial capital goods are required over the next four years. We have not yet gone far enough in our studies to justify an opinion on the reliability of this estimate, but we are obviously giving close attention to it.

Nature of Paris Report

I think we must all realize that the Paris report is merely an economic prediction. Covering the period of four years, it is necessarily general and lacking in preciseness. The form, the timing, the conditions, the means of implementation, all must be worked out. In Washington and elsewhere a tremendous amount of work is being done on every aspect of this problem and we in the Bank, in close cooperation with many other agencies, are attempting to develop answers to the many questions.

At the present time it is impractical to judge the validity of the estimates which have been submitted. Subject to much more detailed and continuing studies, I find that most of those familiar with the problem are in agreement that Europe requires substantial assistance if she is to increase production and regain stability; that it is essential that the assistance rendered be not too little, but that also it not be so much as to relieve Europe of making its own maximum effort. Aside from the amounts involved, I think it is fair to say that Secretary Marshall's invitation to the European countries to study and state their needs and the consequent Paris report are somthing unique in history. No country ever indicated a willingness to consider doing so much for the general good without tangible *quid pro quo*. It is an example of positive leadership based, I believe, on the realization of America's vital self-interest in world recovery. It is noteworthy to contrast this attitude with that which existed after World War I.

On the other hand, I think Americans should recognize the accomplishments of the Paris Conference in agreeing upon a frank analysis of Europe's economic ills and of facing up to the steps which Europe must take to correct them. Skeptics may say that these are merely pious expressions of good intent, without evidence of determination to put them into effect. Realists certainly will demand that the undertakings be put in more concrete form and that specific action by the European countries individually and collectively to carry them out must accompany the granting of aid. But with all these qualifications it seems to me that real progress has been made on both sides of the Atlantic towards facing up to the gravity and realities of the situation.

Perhaps, in the last analysis, the success or failure of the Marshall Plan, the recovery of Europe, the chances of an escape from another war and the security and well-being of America depend on intangible factors. Will there be the bold and constructive leadership both here and abroad to meet and solve an unprecedented problem? Will the people of America grasp the basic issues will they have the maturity and firmness to unite behind their leaders, not in an emotional splurge of generosity but in a determination to adopt and follow through a consistent, realistic policy? This will probably not bring them gratitude and thanks, but criticism from many quarters and an attack on their motives. This is hard for Americans because they wish to be liked, they want to be good fellows, they welcome a pat on the back. But they cannot afford to be swayed from their determined course by irritation at harsh words directed at them by those who are ignorant or hostile. Leadership cannot always be popular, but it must be effective.

For the people of Europe the test is even more difficult. After a terrible battering in two world wars and a difficult interval between, they are poor, weary and discouraged. Will they respond to America's aid by working harder, by continuing sacrifice, by willingness to pull together? Will their leadership have the vision and courage to take the hard measures necessary to increase production, to move towards financial and political stability, to discard some of their traditional methods and to lay aside some national susceptibilities?

I fully concur in the emphasis placed on the urgency of restoring financial stability, on restoring confidence of the peoples in their own currency. Without this, no sustained recovery is possible. This is one of the most difficult problems of reconstruction. It must be worked out in connection with provision for a reasonable minimum supply of food and other necessities of life and for increasing productivity. In certain countries it will probably require stabilization credits to back up firm measures of internal financial reform.

Reduction in Trade Barriers

To many people it also seems probable that western Europe cannot attain a reasonable standard of life, irrespective of the amount of outside assistance, unless there is a reduction of barriers to the flow of trade between the constituent countries and greater integration of their economies. Broken up into the traditional small trading areas, it is not possible to take full advantage of modern technology and without better technology, without full use of the best know-how in every line, Europe may not be able to reach an acceptable level of productivity nor to produce goods at costs which will be competitive in the markets of the world. This is recognized in the Paris report; to translate the thought into accomplishment will be a real test of statesmanship.

Returning now to the specific role of the Bank, I wish to reiterate that the Bank cannot act as a stop-gap for emergency aid. We cannot provide food and other sustenance items. It seems quite clear to us that further large scale loans for productive facilities must be integrated with what may be provided under the Marshall Plan. Even so, the Bank cannot supply the funds for all that is required in this category. We can only be a trail blazer, attempting to meet the most urgent and critical needs, in the hope that in increasing degree private capital and industry will step into the picture. I was invited to meet last week with a group of New York business men to discuss how private industry might work with the Bank in the development of direct industrial investment in Europe and elsewhere. As a result of our preliminary talks we agreed to work together in developing methods whereby private investment might participate in some specific reconstruction projects.

Europe's Problems and Bank's Activities

We in the Bank realize that we must not permit the urgency of European problems to interfere with our activities regarding the sound development of the resources of our member nations whose economies are less fully

developed. Of such areas, perhaps Latin America is especially important to many members of this audience. All of us are aware of the great resources of materials—copper, tin, iron ore, timber, oil—to mention a few—which in increasing degree are essential to the needs of American industry in peace as they proved vital during the war. On the other hand, there is a huge potential market for imported goods in this area.

To an even greater extent than in Europe, the amount of its own funds which the Bank may have available for loans in connection with development in the still economically underdeveloped lands outside of Europe can only be a small fraction of what will be required. Experience shows that the sound progress of underdeveloped areas has been the result of a combination of their own resources and manpower with the capital and know-how from the more mature and economically developed nations. Perhaps the most striking example of this is the United States of America itself. It appears obvious that Latin America and other underdeveloped areas must rely primarily upon private foreign capital and business to assist in their development.

However, the capital and know-how will not be available unless favorable conditions exist. Where, as in the case of a number of Latin American countries, credit has been impaired through failure to meet obligations, steps must be taken to restore this credit. These countries must put their financial houses in order to create the necessary confidence. They must offer a fair deal to foreign capital and management at the same time that they insist that the latter refrain from the exploitation which in the past has not been unknown. Perhaps as an international organization the Bank may be of help to these countries in taking the necessary steps.

The experience of American business in Latin America and elsewhere abroad has been neither all black nor all white. Some companies have suffered losses, but many others have profited well. In the undeveloped areas high profits are the accepted reward for successful enterprise.

Unquestionaly there has been suspicion and even hostility towards foreign capital and enterprise in some of the Latin American countries. However, there are signs of reversal of this attitude and an increasing desire on their part to encourage American business and capital to come into their countries on a fair and equitable basis. We in the Bank are most desirous of encouraging and assisting in this process.

Certainly there are none in this audience who can ignore the critical state of world affairs. It may be no exaggeration to say that the problems and perils ahead are greater than modern civilization has ever faced. It is easy to yield to fear and discouragement. However, it is in the American tradition to meet dangers with bold and practical action. The stakes are high—perhaps no less than the continuance of private enterprise and the maintenance of our democratic way of life.

Brown With Holton Hull

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Stuart L. Brown has become associated with Holton, Hull & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange.

The State of Trade and Industry

(Continued from page 5)

plate, which must be named before Jan. 1, 1948, may go up $15 to $25 a ton. Subsequent market factors, between now and the latter part of December, will determine the new price for tinplate — but a stiff advance is inevitable.

Scrap prices this week touched $41.83 per gross ton which not only surpassed the hectic period of June, 1917 but topped the previous all-time record made in the early part of August this year, by 16 cents a ton. Substantial increases in the price of No. 1 heavy melting steel were registered at Chicago, Philadelphia, Pittsburgh, Cleveland, Youngstown, Boston and St. Louis with no indication at midweek that the peak had been reached. In the case of Chicago the increase amounted to $3 a ton and $2 a ton for Pittsburgh and Philadelphia. The tonnage of scrap moving from the east to the midwest was on the increase.

With a great number of steel consumers having had their fourth quarter quotas of flat-rolled products almost entirely wiped out demand for steel is reaching almost hysterical proportions this week, the above trade authority points out. Greater activity is present in the gray market with little chance that premium price levels there will decline for months to come. Conversion deals too are progressing at such a hectic pace that even they are being held back because of their volume.

Some steel companies are turning down additional tonnages of ingots for conversion because of the filled-up condition of slabbing mills. This situation, "The Iron Age" notes has tightened up the supply of free slabs, the spot price on which is in many cases more than $90 a gross ton compared with a published price by large companies of $45 a ton. Strangely enough some major steel producers on firm contracts are now selling ingots in the immediate vicinity of their plants at about $5 a ton below the price of scrap. In the case of billets, blooms and slabs, the trade paper adds, these same companies on contracts with customers close by their plants, are receiving only about $3 to $4 a ton more than they are paying for scrap.

The pig iron situation this week is reaching an all-time record for tightness with some steel companies being forced to divert this metal from their openhearth in order to supply pig iron to ingot mold makers. If this were not done a shortage of ingot molds would further restrict current steel output which is now at a postwar high.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 97.1% of capacity for the week beginning Oct. 20, 1947, the highest rate since the week of June 19, 1944. This compares with 96.8% one week ago, 94.1% one month ago and 90.3% one year ago. Current operations represent an increase of 0.3 point or 0.3% from the preceding week.

The week's operating rate is equivalent to 1,699,200 tons of steel ingots and castings compared to 1,693,900 tons one week ago, 1,646,700 tons one month ago and 1,591,400 tons one year ago.

RAILROAD FREIGHT LOADINGS HOLD TO HIGHER TREND FOR WEEK AND YEAR

More cars were loaded with revenue freight in the week ended Oct. 11, 1947, than in any other week in a little more than 17 years, the Association of American Railroads announced.

Loadings for the latest week totaled 956,862 cars. This was an increase of 14,329 cars, or 1.5% above the preceding week. This represented an increase of 57,419 cars, or 6.4% above the corresponding week in 1946 and an increase of 202,303 cars, or 26.8% above the same week in 1945.

ELECTRIC OUTPUT 9% HIGHER THAN A YEAR AGO

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 18, 1947 was 4,946,090,000 kwh., according to the Edison Electric Institute. This compares with 4,958,062,000 kwh in the preceding week, and was 9% in excess of the 4,539,712,000 kwh. produced in the corresponding week of last year.

AUTOMOTIVE PRODUCTION SHOWS DROP OF 10,592 UNITS IN LATEST WEEK

With the resumption of activities on the part of a greater number of car manufacturers the current week, indications point to a higher rate of output of automotive units with prospects that the volume will approach a total of around 70,000 cars and 25,000 trucks.

The decline in volume last week was due in large measure to the shutdown of almost all of the Chrysler assembly lines. The Hudson plant, which was closed since September 19 for a model change-over, will resume output this week and with the possible exception of Nash, it is reported that no other new model change-overs are in prospect until after Jan. 1, next.

In the case of Nash it is understood in trade circles that the switch-over to new models will occur before the year's end and will require only a brief halt in the assembly line to achieve it.

Production in the United States and Canada during the past week totaled 88,386 units, compared with a revised figure of 98,978 units in the previous week and 89,540 units in the comparable period of last year, states Ward's. In the corresponding 1941 week the figure was 85,600 units.

Last week's output comprised 84,589 vehicles made in this country and 3,797 in Canada. The U. S. total included 59,409 cars and 25,180 trucks, while the Dominion figure showed 2,180 cars and 1,617 trucks.

FAILURES TURN UPWARD IN LATEST WEEK

Commercial and industrial failures during the week ended Oct. 16 totaled 75, Dun & Bradstreet reports. This compares with 62 in the preceding week and 23 in the corresponding week a year ago.

Despite the fact that failures were more than three times as numerous as last year, they were far below the 277 reported for the comparable week of prewar 1939. The total of 75 compared with a weekly average for the year of 65 failures.

Concerns failing with losses to creditors in September numbered 292, only five above the August total of 287. Although this was three times the number that failed in September a year ago, it was considerably lower than any monthly total on record prior to 1944.

WHOLESALE FOOD PRICE INDEX SHOWS MILD UPTREND IN LATEST WEEK

The wholesale food price index, compiled by Dun & Bradstreet, Inc., turned slightly upward this week to stand at $6.85 on Oct. 14. This compared with $6.83 a week earlier, and with $6.15 on the corresponding date a year ago. Due to the sharp rise that occurred in this week last year, the year-to-year percentage increase has been sharply narrowed to 11.4%, from 26.5% shown last week.

DAILY WHOLESALE COMMODITY PRICE INDEX ADVANCED STEADILY IN CURRENT WEEK

The Dun & Bradstreet daily wholesale commodity price index advanced steadily in the past week mainly due to continued strength in foods and grains. The index figure rose from 281.85 on October 7, to 285.54 on October 14. This represented an increase of 17.1% over the 243.90 for the corresponding date a year ago.

A general rise in both futures and cash grain markets largely reflected substantial government buying of cash grains and continued unfavorable weather in principal winter wheat areas. The December wheat contract reached a new seasonal high last week while cash wheat went above $3 per bushel at leading markets, the highest since 1920. Speculative trading in wheat, corn and oats showed considerable decrease as a result of the higher margin requirements which went into effect on October 7.

The October 1 report of the Department of Agriculture estimated this year's production of corn at 2,458,574,000 bushels, an increase of 54,761,000 bushels over the September 1 forecast. The total wheat crop was estimated at 1,408,602,000 bushels, or 1,841,000 bushels less than a month ago. Lard prices gained 1 cent a pound last week as the result of good export and domestic demand, and continued strength in hog markets. Cattle prices were steady but lambs turned downward at the close. Flour bookings were sharply curtailed, due to advancing prices. The cocoa market continued tight with prices rising slightly over a week ago.

Trading in spot cotton markets continued active. Prices registered moderate net gains for the week, largely influenced by the lower-than-expected government crop estimate of 11,508,000 bales. Early strength reflected active mill and commission house buying; but subsequent profit-taking and hedge selling tended to check the rising trend. Sales in the ten spot markets aggregated 398,600 bales for the week as compared with 324,700 in the previous week, and 246,600 in the like week a year ago.

The October 1 cotton crop forecast of 11,508,000 bales represented a decrease of 341,000 bales, or 3%, from the September 1 estimate. Weather conditions in the cotton belt were generally favorable with picking and ginning reported making rapid progress.

Demand for fine staple domestic wools continued to exceed supplies and trading volume in the Boston market was restricted by lack of offerings. A little more activity was reported in foreign wools as a result of arrivals of Montevideo and Argentine lots from 1947-1948 clips. Appraisals of domestic wools for purchase by the CCC totaled 5,072,356 pounds in the week of October 3, making a total of 67,207,595 for the season to date.

RETAIL AND WHOLESALE TRADE MAINTAINED AT LEVELS MODERATELY ABOVE PREVIOUS WEEK

The Columbus Day holiday brought a large number of shoppers into many stores and consumers generally responded very favorably to fall and winter merchandise. Retail volume in the week was moderately above the levels of both the preceding week and the corresponding week a year ago, reports Dun & Bradstreet, Inc., in its current survey of trade. The use of charge accounts and deferred payment plans increased slightly and consumer quality-price consciousness remained evident.

The food-saving program had little effect on grocery volume last week, since consumers continued to purchase substantial quantities of most foods. Housewives requested large quantities of canned goods and fresh vegetables and fruits continued to sell well. Less expensive cuts of fresh meats were popular with canned meats, fish and poultry in large demand. The volume of frozen foods and dairy products remained considerable.

Clothing attracted a great deal of interest the past week. Raincoats and heavy footwear received favorable attention, and sportswear sold well. Women's crepe dresses were very popular. The demand for coats and suits was steady. Many stores reported a rush in the buying of nylon hosiery, and lingerie volume proves to be large. Men's worsted suits and covert cloth topcoats were in good demand with an increase in interest in wool shirt and sweaters.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 7 to 11% above a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England, Middle West and South, 16 to 10, East 8 to 12, Northwest 10 to 14, Southwest 7 to 11 and Pacific Coast 4 to 8.

Merchants in many parts of the country noted an improvement in deliveries the past week with normal deliveries resumed at the settlement of the New York Railway Express strike. Wholesale volume rose moderately in the week and remained well above the level of the corresponding week of 1946. The buying of fall and winter merchandise continued to be substantial with the response to early showings of spring lines enthusiastic.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 11, 1947, increased by 8% from the like period of last year. This compared with an increase of 18% (revised figure) in the preceding week. For the four weeks ended Oct. 11, 1947, sales increased by 14% and for the year to date increased by 8%.

Retail trade here in New York last week was maintained at a high rate as compared with one year ago. Department store volume was estimated at 40% above the like week of 1946.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period to Oct. 11, 1947, increased 24% above the same period last year. In using year-ago comparisons for this week allowance should be made for the fact that in the cities of New York and Newark work stoppages in the trucking industry prevailed. This compared with an increase of 32% (revised figure) in the preceding week. For the four weeks ended Oct. 11, 1947, sales increased 28% and for the year to date rose by 9%.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets continue on the defensive with the down trend again taking some issues to new lows for the year. . . . The longer-term bonds, both the eligibles and restricteds, have had a rather sizable reaction from recent tops being down about ¾ of a point. . . . At present levels, investors appear to be showing more interest, although they are not making more than token commitments as prices recede. . . . Some hold that 102 and 105½ should be good resistance points for the longest taps and eligibles, although inflationary fear selling could bring about lower prices. . . .

SHORT-TERM RATES

The 11-months' certificates, with a 1% annual rate to refund the Nov. 1 maturity, will boost rates for one-year money to just slightly over 1%. . . . The reaction to the Treasury announcement appeared to be mixed, with some mildly surprised, while others seemed to have expected it. . . . This continues the policy of tightening short-term rates, without too much effect yet upon longer-term obligations which now seem to be influenced more by other forces, not the least of which are the effects of higher prices upon all fixed-income-bearing obligations. . . .

BEARISH INFLUENCE

The downward movement in prices of corporate bonds continues to influence the trend of Treasury obligations. . . . Despite rallying tendencies that appear from time to time in government securities, no clear-cut upward trend is anticipated until corporate bonds have made a base. . . . This will undoubtedly take some time because of the adjustments that must still be made in non-Treasury obligations. . . . Investors are taking a longer look at corporate bonds now, with some purchases being made at the expense of government securities. . . .

MORE LIQUIDATION

Institutional investors, particularly, are becoming more conscious of the favorable yields that are appearing in the corporate list and with more advantageous ones expected, there will be further liquidation of Treasury securities in order to acquire corporate bonds. . . . This will help the earnings of the purchasing institutions, which are always desirous of improving income provided it can be done with reasonable safety. . . . Prospective buyers of corporate bonds are getting the best opportunity in years, to take on the pick of the list, at their own prices. . . .

So far most of the selling that has been done in governments in order to take on corporates has been in the short or intermediate maturities. . . . It has not yet been sizable enough to have any great bearing on prices of the Treasuries sold. . . .

PROFITABLE TRADING

Investors and traders alike are on the skeptical side of the market and will most likely stay there until they have had greater experience with the new trading range that is now in the making. . . . Government security prices are going to continue to move within fairly definite limits, probably somewhat under those that the market has more or less taken for granted in the past. . . . It is, however, this process of adjustment that makes for confusion, except for those that are agile enough to move from one side of the market to the other, and there are plenty that are doing it successfully. . . .

Widely swinging markets such as we have been having are quite profitable for a good many government dealers, not only from the standpoint of larger volume but also in the form of trading profits. . . . Money is being made on the long and short side of the market. . . .

SURPLUS FUNDS DECLINE

Studies that have recently been made indicate that the free funds of institutions available for investment have gone down rather substantially in the past few months. . . . The estimated figures are believed to be much under those that had been generally accepted as minimum amounts in the financial district. . . .

Some of the smaller non-banking institutions are just about out of idle funds and will have to sell part of their investments if they are to take advantage of expected higher yields. . . .

This helps to explain to some extent at least the softness in prices of governments from time to time as well as the demoralized condition of the corporate bond market. . . .

SWITCHING

It is reported that large New York City banks are advising correspondent institutions to take advantage of government price swings to make needed changes in their portfolios. . . . Issues that should be disposed of are being let out on price strength, while the higher income obligations are being acquired on weakness. . . . This operation is being carried out cautiously and does not necessarily have to be rushed to an immediate completion. . . . Buying levels are also being forecast with indications that the longest eligible issue should be in for scale purchases by these banks from 105½ down. . . .

WORLD BANK BONDS

World Bank bonds have been on the toboggan, largely because of the lack of buyers. . . . There has been some selling but not enough to cause the sharp drop that has taken place. . . . Both the 2¼s and the 3s seem to be at levels that should be attracting buyers. . . .

In fact these bonds are in a much better position now than when they were first offered. . . . The free riders have been eliminated and marketability is improving. . . .

There should be no question as to the safety of these securities and they certainly are as good as AAA corporates and the yield is more favorable. . . . If they were so good at much higher levels, what's the matter with them now, when they appear to be on the bargain counter?

Looking Forward

(Continued from page 2)

alarm." Well, what can we find to worry about this evening?

Foreign Trade

As we are in Boston, a great foreign trade center, let us first bring foreign trade to the mourning bench. Since 1941, we have been busy night and day shipping everything which was loose, and some things which were not loose, to the four corners of the earth. It seemed almost as if no country was too poor, no country was too opposed to our aims, no country was too far away to benefit from lend-lease, or relief, or military shipments, or preclusive buying, or plain, old-fashioned Yankee trading of a private character. Obviously, the abnormal export volume of the war, and postwar, years cannot be maintained indefinitely, no matter how desperately they are needed. Exports face a big decline if the Marshall Plan is not adopted; and, even if it should be adopted, the high level of the first six months of this year cannot be maintained.

As bankers well know, the so-called dollar shortages are nothing but reflections of trade deficits. And such trade deficits cannot be avoided with foreign production at low levels and with American tariffs closing the door to imports. Why we, as a nation, prefer to give our goods away rather than accept payment is too much for my limited comprehension to fathom!

Just one statistic on foreign trade will indicate what we may expect: Merchandise exports of $7.5 billion in the first six months of 1947 were nearly 70% greater than the $4.7 billion of the entire year of 1946. A drop of at least 20 to 30% from the abnormal level of these first six months would seem a reasonable conclusion in view of the "dollar shortages" and the recently inaugurated import restrictions in Australia, New Zealand, Mexico, England, and nearly all of South America.

Inventories

Now a word on inventories. We have the highest inventories of all time at the highest prices of all time—truly a dangerous situation. Inventory write-ups have been siphoned off in many cases by taxes and dividends. Is it not time to ask borrowers what they plan to charge their inventory losses against when prices fall? And fall they will; they always have in the past!

Another thing for bankers to worry about is the fantastically high level of consumer spending. The national income is running at the rate of $200 billion a year. Disposable personal income is at the rate of $170 billion, of which $11 billion is being saved, leaving $159 billion for the spending stream. Yet people are borrowing to buy things! Consumer credit rose to $11,060 billion in July. Bank loans, which filter on down to consumers, have expanded since June, 1946, as follows: Commercial and industrial, up 48%; real estate, up 54%; and consumer loans to individuals by commercial banks, up 81%.

Like so many other things in economics, full-employment, or as I call the present unsatisfactory situation, over-employment, is a two-edged sword. Every increase in the number of employees directly increases the total payroll, of course, but it also permits a much more than proportionate increase in "free" spending as the costs of food and shelter for the spending units to which these new income receivers belong remain more or less the same.

This is so important that it warrants further explanation. Thus, per capita income, which was $575 per year in 1940, increased to $1,200 in 1946; but in addition to this per person increase, there were more people working and, most important of all, more people working in each spending unit, thus contributing to the income of the unit. Food and rent costs, which ordinarily require around 50% of the breadwinner's income, are not directly increased when another member of the spending unit secures employment, so that the increased income can be largely spent for amusements, mechanical conveniences, such as refrigerators or automobiles, and luxuries of one sort or another.

What does all this add up to? I'll tell you: a sizable drop in employment will cause a drastic decline in the sales of manufactured goods. As both prices and volume will drop, somebody will be left holding the well-known bag!

Increase in Bank Loans

Bankers complain that there aren't any commercial loans to be had any more, that those days are gone; yet the total loans of the commercial banks of the United States in June, 1947, reached the record-breaking figure of nearly $34 billion—a figure some $5 billion greater than the loan peak of World War I reached in mid-1920.

To add to the problem, interest rates are much lower on these loans. There is no margin for, shall I say, contingencies. This is especially true of the term loans, nearly all of which were made on such a fiercely competitive basis that I told the Federal Deposit Insurance Corporation Supervising Examiners in Washington last spring that the rates reminded me of the fellow who was starting to the races with his wife. After considering his financial situation, he said: "Honey, I sure hope I break even today; I need money so bad!"

If I were a banker, I would not take anything for granted on loans. Each loan should be studied in the light of possible adverse developments in exports, inventories, and consumer spending. In particular, I would study those good, low-yield loans which are considered to be beyond question. These are the loans to watch in times of transition such as we are now entering. The heavy losses, in times of change, come from the loans we **think** are good, not from those we **know** are poor.

It has been unjustly charged that bankers supply an umbrella when the sun shines and take it away when the storm comes. While that is untrue, it is true that if the umbrella is too large for the borrower, they both may be blown away in the storm; by the same token, if the umbrella is too small for the borrower, he may get too wet and contract economic pneumonia. There is an optimum amount which is best for both borrower and lender. Now is the time to determine that amount—before, and not after, the change in economic trends.

Real Estate Loans

If I were a banker, I would turn a cold and suspicious eye on each real estate loan, especially those acquired since the end of World War II. Commercial bank loans on real estate are some six times larger than in 1920. Such real estate loans are currently in excess of $8 billion, which is more than 50% greater than the previous high reached before the war in 1941. I would recheck my appraisals on a realistic, rather than a veteran's housing emergency basis, remembering always that an old house is an old house. Too much of present day house value has come from the housing shortage. Such scarcity values cannot be permanent. In any event, scarcity is the poorest possible basis for value, especially in America, whose production genius is the envy, if not the admiration, of the entire world.

Government securities, which constitute the greater part of your assets, need give you no concern. The premium you paid on most of them will disappear eventually through write-downs, or on some issues even sooner, through market action. The days when you could buy government securities with your eyes shut, knowing that they would go up, have passed—the free rides are over!

It is reasonable to expect that with the changing credit policies, the relative position of some issues will change. But it is impossible to conceive that the public debt managers or the Open Market Committee of the Federal Reserve System would permit even the most adversely affected issue to drop under par. We still have a managed money and a managed public debt. A debt total of some $260 billion is sufficient incentive for the managers to keep prices at, or above, par. Beyond question, they have the inclination to prevent unwanted declines in the prices of governments. I say to you that it is equally beyond question that they have the powers to prevent such declines. Does anyone doubt for one moment that the monetary authorities would hesitate to use such powers?

Although the commercial banks have over $70 billion of the most nearly riskless assets the world has ever known — United States government securities — they should nonetheless carefully weigh the adequacy of their capital resources with relation to their risk assets. There are times when hidden reserves would render greater service if they appeared on the balance sheet. There are times when an abnormally strong capital position is a source of comfort to the banker and peace of mind to the community. Such a time approaches — how soon it will materialize I cannot say; but there are many indications that a business readjustment is overdue.

Deposits

Deposits are the one thing which commercial bankers need have no worry about. In general, deposits are filtering down into smaller hands; and, also, demand deposits are tending to flow over into time deposits. As I stated at your meeting four years ago, and repeated three years ago, and two years ago here in Boston at meetings of the Bank Management Conference of the New England Council, I do not anticipate any consequential shrinkage of deposits—especially of New England deposits. As a matter of fact, the odds are better than even that New England deposits will hold their own or possibly even go ahead.

There is another thing giving many bankers concern on which I would like to utter a few reassuring words. I refer to the persistent rumors from abroad and from certain sources in the United States, to the effect that the monetary authorities will increase the price of gold and thus further devalue the dollar. Speculators in gold shares have undoubtedly initiated, or at least nurtured, many of these rumors. Such a move, to my mind, is out of the question. Such a move would be economically unsound. It would fan the fires of inflation in this country and make the Marshall Plan a farce. It would be another blow at Europe at the very time when we are trying to resuscitate the European economies. And, most importantly, it is legally impossible without affirmative legislative action by the Congress.

In closing, let me say that we are enjoying an unearned, warborn prosperity of fantastic proportions. These are indeed "easy"

times; even the government is "making money," as a $4.7 billion surplus of revenue over expenditures is now indicated for the current fiscal year. It seems reasonable to anticipate a change in economic trends in the near future. And, while we do face a change, there will be no repetition of 1920. What we face is a recession, not a depression.

In times of economic stress, banking must almost be "all things to all men." It follows that if bankers are to fulfill their historic responsibility of leadership, guidance, rescue, and service as a tower of strength in emergency, they must be well-informed on probable economic developments; they must have definite plans to meet whatever the future may bring; and, they must have an asset liquidity and capital strength which will permit them to cope with developments no matter how adverse they might be.

Anti-Discrimination Bill Scored

(Continued from first page)

ment, whether rational or irrational (in the opinion of others), is one of the most essential freedoms of a free citizen which has been for decades guaranteed by the Constitution of the United States. The objective of S. 984 in denying this essential liberty is not admirable but detestable.

Freedom to choose one's associates is essential to a free exercise of the right to earn a livelihood, essential to a genuine liberty of contract and essential to the free pursuit of happiness. There is nothing inherently wrong in having a preference to work with persons of a particular race, religion, color, national origin or ancestry. If racial and national congeniality is not sinful, then uncongeniality cannot be a sin. Human brotherhood may be a beautiful ideal, but if the congeniality of Chinese to Chinese and French to French and Irish to Irish is a natural feeling and not a vice, how absurd it is to argue that the outgrowing uncongeniality toward other nationalities and races is so wrongful that action based upon it should be forbidden by law!

Of course racial prejudice and intolerance may be an ugly thing, fostering unjustifiable hatreds, and leading to wasteful conflicts. All unreasoning prejudice and intolerance may be assumed to be evil. But bad thinking cannot be legislated out of the human mind. And how can a government official be endowed with the celestial wisdom necessary to determine whether that which is called "prejudice" and "intolerance" is really evil or is, on the contrary, righteous dislike or hatred? Is it wrong or right for a deeply religious person to prefer not to associate with those who would like to destroy his religion and all its devotees? Is it wrong or right for a free individualist to object to enforced association with a fanatic communist, who seeks to enslave him?

If S. 984 were the law, the management of a religious publication (for profit) would be forbidden to discriminate against atheists or hostile religionists who might be "qualified," but certainly would not be cooperative, employees. The manufacturer of religious articles or books, desirous of maintaining a harmonious organization and satisfied customers, would be compelled to employ "qualified" but cynical and disagreeable associates to make and sell his products.

The Congress is forbidden to make any law "prohibiting the free exercise" of religion. But this law prohibits a man from freely exercising his religion in carrying on a business in association with others who are of like faith. The maker of food products, drugs or sewing machines may desire to have the ethical standards of his religion effective throughout his business organization; but this proposed law would deny him this privilege — this constitutionally guaranteed liberty. The constitutional invalidity of such a law only emphasizes the point that the objective of the law, as a denial of freedom of association, freedom of contract and freedom of religion, is not a righteous, but a thoroughly unrighteous objective.

Before analyzing the bill in detail, let us glance ahead toward the ultimate objectives of such legislation and catch a glimpse of the society which the progress of such law-making will eventually create.

If the government is to undertake to prohibit and prevent all unjust discriminations in employment, why stop with "race, religion, color, national origin or ancestry"? The Charter of the United Nations, which is dragged into the Policy statement, also deprecates distinctions as to "sex" and "language." There are, furthermore, notorious discriminations in employment because of "age," and persons are frequently not hired because "too old" or "too young." Many persons are refused employment because they are "tall" or "short" or "fat" or "thin" or "sickly" or "partially disabled," or because they have "halitosis" or "body odor."

Thousands upon thousands of persons are always being denied employment for such discriminatory reasons. A government bureau would certify most of them as "qualified"; but, "by accident of birth" or otherwise without personal fault, they do not appeal to the employer as desirable employees. If the employer (of more than 50 persons) is to be regarded as a mere instrument of state policy, who can be required to employ anyone whom a government bureaucrat finds to be "qualified" for a particular job, why should not all employments be made through a government agency? This would save a great deal of time and energy which will otherwise be wasted in litigations between government and employers. Then the employer would have nothing to do except to try to run his business with "civil service" employees furnished by the government and made secure in their jobs and in advancement, as provided in Section 5(a)(1) of S. 984! The plain fact is that the function of the employer in private enterprise, and the system of private enterprise itself, would soon disappear as the high sounding objectives of anti-discrimination laws were logically developed.

It is worth noting, however, that the most clearly undemocratic and unjustifiable discrimination now practiced in employment is not prohibited by S. 984. The employer would still be permitted to deny employment and the opportunity to earn a livelihood to any man on the ground that he did not belong to a private organization known as a labor union. This discrimination, which is forced on employers by a labor union which demands a job monopoly, such as a "closed shop," is the most indefensible violation of constitutional liberty that has ever been widely tolerated in the United States. There may be a very good reason for disqualifying a person from a particular employment because of race, religion, color, national origin or ancestry. But, to deny a man a right to work unless he submits to the taxation and discipline of a private, unregulated organization, is a wrong for which there should be a complete remedy, and not any further support, in the Federal law.

Proponents of S. 984 will of course refer to Sec. (5) (b) as providing an answer to this criticism; but there is no answer there. Sec. (5) (b) does make it unlawful for a labor organization to limit or classify its membership so as to discriminate against a person because of race, religion, color, national origin or ancestry. This, however, does not prevent any labor union from continuing an internal control and maintaining in effect a great variety of regulations which would continue the present discriminations which are practiced against those who are not favored by the labor officials who run the unions.

But, even if there were no discriminations within the organization, it is not made an unlawful employment practice for an employer to deny employment to a non-unionist. So here we see proposed a law to prohibit supposedly wrongful discriminations in employment which fails to prohibit the most obviously wrongful discrimination that is practiced today against a free citizen who is seeking to earn a living.

It is the law today that an employer shall not discriminate against an employee, or an applicant for work, because he is a member of a labor union. But it is not the law today that he shall not discriminate against him because he is not a member of a labor union. That might be a good place to begin the writing of an anti-discrimination law—if any such law should be written.

When, however, the manifold defects, illegalities and improprieties of S. 984 are made clear on detailed examination it may become evident that no such anti-discrimination law should be written and no attempt should be made to impose such controls over the minds and activities of a people who believe in individual liberty.

Ward Re-Nominated by Eastern Pa. IBA Group

PHILADELPHIA, PA. — T. Johnson Ward, partner of Merrill Lynch, Pierce, Fenner & Beane, has been again nominated for the Chairmanship of the Eastern Pennsylvania Group of the Investment Bankers Association of America for the year 1947-1948.

Others placed on the regular slate of officers to be voted on at the annual meeting called for Oct. 22, were: H. Gates Lloyd, of Drexel & Co., Vice-Chairman; and

T. Johnson Ward

Albert R. Thayer, of Thayer, Baker & Co., Secretary-Treasurer.

In addition, the following were nominated for three year terms on the Executive Committee: Loring Dam, of Eastman, Dillon & Co.; John S. Malick, of Fidelity-Philadelphia Trust Company; and Alfred Rauch, of Kidder, Peabody & Co.

These nominations were made by a committee consisting of: Arthur S. Burgess, of Biddle, Whelen & Co., Chairman; Philip L. Lee, of Wurts, Dulles & Co.; J. Reece Lewis, of Elkins, Morris & Co.; Edward C. Sayers, of Smith, Barney & Co., and Bertram M. Wilde, of Janney & Co.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Inflationary hopes build up stock market optimism. Trades await conformation of Dow Theory.

* * *

Since the previous column was written the market has advanced about three points to approximately 187 making everybody, from customer to broker, quite happy. This happiness is expressed in optimistic forecasts with even the elevator men and newsstand dealers passing on "inside" information..

* * *

It would be pleasant to ride along with all these volunteer investment counsellors besides being an easy thing to do. Everybody likes to hear that their stocks are going higher and they will make more money. It makes for pleasanter relations all around. Actually I think the trend, to which attention was called three weeks ago (averages then about 174) will continue up. At the same time, however, it seems to me that a good deal of this strength is of the cream puff variety. One real squish and the whole thing may come out the back way.

I can't argue that inflation hasn't gotten hold. The surprise is that it hasn't latched on sooner. During an inflationary period stocks are supposed to go up like rockets. At least that is what everybody was hoping and telling each other not so long ago. Unfortunately things didn't turn out that way. They went up a little, then turned down a little, then went up and then down again, and now they're up again. The trader capable of catching the twists and turns must have been a genius. Me, I'm not a genius. I just call them the way I see them and plug along hoping that I'm right a little more often than I'm wrong.

* * *

The big hope now is that the averages will go through the 190 level thus confirming a Dow theory axiom of bull markets. My belief is that the market will go through this disputed 190 figure but not without some backing away first. I'll also hazard a guess that when this figure is penetrated it will hardly cause a ripple.

* * *

The question supposedly uppermost is what to buy (if one hasn't already done it) and how long to hold on. A few months ago if I felt that the advance had further to go I wouldn't have hesitated to recommend a group of stocks. Today, with inflation biting at the market, choosing a stock is almost a useless pastime. If this wild fear to exchange dollars by buying equities really takes hold, then almost any stock chosen will go up. If this is true then the whole thing becomes too easy. And when that happens I merely agree that they'll go up but I won't specify individual issues.

* * *

The steels, motors and utilities are in a move position. Further than that I don't care to go.

* * *

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Illinois Securities Dealers Annual Dinner

CHICAGO, ILL.—The Illinois Securities Dealers Association will hold its annual dinner on Friday, Oct. 31, at the Terrace Gardens of the Morrison Hotel.

Mortola of Thompson Agency Visiting in US

Manuel Mortola, Associate Manager of the Buenos Aires office of J. Walter Thompson Co., is in the United States to consult with American clients of the Argentine office and to visit J. Walter Thompson Co. offices in this country.

A. Kahle & Co. Formed

(Special to THE FINANCIAL CHRONICLE)

CLAYTON, MO.—A. Kahle & Co. is engaging in a securities business from offices at 22 South Central. Officers are A. Kahle, President and J. T. Pettus, Jr., Vice-President.

Import Trade Promotion

(Continued from page 6)

edge of our end product just the same as any other producer.

In the "manufacturing department" a number of important steps have been taken. The Foreign Service of the United States has been given by the Department of State at the request of the Office of International Trade (under date of March 3, 1947) fundamental directives under which it is instructed as a permanent policy "to report on the potentialities of their districts as suppliers on a sustained basis of materials and products for export to the United States and especially to report such information as would be of assistance to U. S. importers." The Foreign Service was also informed that "as a general rule that the requirements of the U. S. important interests are entitled to receive the same attention from Foreign Service officers as would be given to U. S. exporting interests." Through this step, import promotion was placed on the same basis as assistance in export trade promotion, including visitors, inquiries, and trade reports.

Subsequently, the Foreign Service was supplied with a special form for reporting import trade opportunities. Owing to the specialized character of our import trade, considerably more detail has to be developed in order that the prospective American importer can deal effectively with proposals of the overseas seller. This new form was developed in cooperation with the Department of State and with the assistance of the Import Advisory Committee and the National Council of American Importers. The first extensive review of the results obtained through the publication of these trade leads is now under preparation by the Commercial and Economic Section of the American Embassy in London. It is hoped that as a result of this review the Office of International Trade will shortly know the causes underlying the disappointing lack of results so far secured from import trade opportunities submitted by Foreign Service officers in London: Whether this is due to trade obstacles, such as high prices, or whether these new prospects have not been sufficiently publicized, or perhaps is even due to their intrinsic lack of commercial sales appeal.

Lack of Sufficient Customs Staff

At two meetings of the Import Advisory Committee, the suggestion has been made that the fundamental barrier of the development of a larger import trade was the lack of sufficient staff in the Bureau of Customs to process the current volume of import entries and appraisements. It has been suggested by one member of the Committee that, until the staff is adequate to the present volume of our imports, it is futile to attempt to increase the trade. Currently, it is admitted by the Bureau of Customs that the situation for importers is relatively more difficult at San Francisco than at any other American port; as a temporary measure, they have recently had to close the Appraiser's Store in that port and order that no additional imports be removed from docks and piers. To deal with the present backlog, five specialists have been detailed from other ports and Washington to San Francisco and funds for 11 additional employees are being made available to the Appraiser with a view to alleviating the present congestion.

On Jan. 1, 1947, there was at all ports a total backlog of 79,000 invoices which had not been appraised for dutiable value, but the Bureau of Customs believes that this volume has been cut down considerably and probably now is closer to 50,000, including some 6,000 appraisements withheld pending court decisions. While every effort is being made by the Bureau of Custome to develop improvements in procedures, the fact does remain that there is from time to time, as at San Francisco currently, a congestion which the Bureau of Customs is unable to handle as expeditiously as they would like. An Interdepartmental Committee, composed of technicians and specialists, has been working on these basic problems and the National Council of American Importers has also made certain suggestions after careful study and analysis.

It is also clear that many of the present difficulties arise out of the importation of new products, such as plastics, new foreign shippers who are not fully aware of American import regulations, new importers, some of whom are not well grounded in import techniques, and new employees of the customs service. In this latter connection, many who are aware of the valuable contribution made by the Customs School of Instruction will regret to learn that this Division of Training, which was first established on July 5, 1935, has been discontinued by administrative action and the employees transferred to other duties.

Increased Customs Collections

Importers will not be surprised that our customs collections during the fiscal year ended June 30, 1947, amounted to $497,533,914, an increase of 12.9% over 1946 and larger than for any year since the passage of the Tariff Act on June 17, 1930. The following table will be of interest as it shows the first 10 countries on the basis of duties collected on their imports into the United States in the fiscal year 1947:

Valuation of Estimated American Duties Collected by Countries of Origin

Australia	$65,889,320
Cuba	52,452,862
Canada	42,426,041
United Kingdom	39,488,716
Switzerland	29,563,795
Argentina	28,359,744
Mexico	17,544,276
Union of South Africa	16,500,760
Turkey	15,013,520
France	14,360,701

The number one position held by Australia is directly attributed to its large participation in the raw wool trade, the total of $121,105,594 representing larger duty collections on raw wool imports from all sources than for any preceding year in customs history, except in 1946, when the total was approximately 25% larger. Imports under the tariff schedules of spirits, wines and beverages and under the agriculture products schedule also recorded diminished collections, as did the wood and wood manufacturers group, but in this latter case the reductions were attributed to the free admission after Oct. 25, 1946, of many important types of lumber under the terms of Presidential Proclamation 2708.

All of the remaining types of import commodities recorded large increases in customs revenue in the past fiscal year. For example, the revenue from cotton table damasks was almost 14 times greater than in 1946, while for cotton tapestries it was more than 14. Felt hats, wrapping paper, wool yarn, buttons, glassware, cordage, rayon table damasks, cotton floor coverings, musical instruments, human and animal hair, rayon filaments and other fibers, potatoes and tinsel were other important import classifications on which increased amounts were collected. The revenue in 1947 on articles which were admitted free for stockpiling purposes during the war reached startling heights. For example, vegetable oils were 1,700% above those collected in 1946, while the increase for aluminum was 1,600% and for lead almost 4,600%.

There was also in 1946 a further rise in the value of imports of dutiable at ad valorem rates, a continuation of the trend which has prevailed since the end of the war. These products are practically all manufactured articles and to a very large extent they represent importations from Europe. Some of these goods which are subject to high ad valorem rates, such as laces and embroideries, glassware, chinaware, jewelry, gloves and feather manufactures, are still below the prewar level of imports. Ad valorem duties now constitute 24% of the total collected, as compared with 26% in 1938 and only 9% in 1943 and 1944. Specific duties, which were 84% of the total collections in 1944, compared with 64% in 1938, accounted for 70% of last year's total collections. Articles dutiable at combined rates, partly specific and partly ad valorem, are still below the levels which existed prior to World War II, 10%, for example, in 1938 as compared with 3% in 1944 and 6% in the last two years.

Unfortunately, the inauguration of this new trade promotion program has coincided with the severe breakdowns of the production machinery in many countries, especially in Europe and the Far East. Not until after foreign production has been revitalized towards prewar levels will it be possible to evaluate the long range and full effects of these new policies on our imports. Even under existing handicaps, American purchases abroad have been at relatively high levels, but only time will show to what extent imports can be stimulated.

The Current Economic Scene

(Continued from page 19)

was exceedingly difficult to demobilize. This has proved true in other countries where similar controls have been applied. Even Russia, which has controls par excellence, is said also to have its black markets in spite of the fact that the penalty applied there for such operations is much more drastic than elsewhere.

The fact seems to be that there is little use in setting a price on a commodity or a service when it will become the chief sport of sellers and of buyers to get around the control by any conceivable device. Quantity can be reduced; quality can be sacrificed; "tie-in" sales can be resorted to unless absolutely prohibited; and the general result can be that the production of goods on which prices are controlled simply can be stopped while substitute or other goods can be produced in the plant. That is part of the record of price control history. It would seem, then, that the mere absence of such controls is hardly a sufficient explanation of the present price boom, and that the restoration of such controls might easily revive other evils that are as bad as high prices. What use is it to say, for example, that the controlled price of a man's white broadcloth shirt is $3.50 when the only shirt that is made available is one made of inferior material, short-tailed, with a wilting collar, and can be had only by paying $5 for it?

Effect of Heavy Exports

As explanation of the price boom, there are other factors that call for attention and that come closer to a realistic explanation. One of these is the export of goods needed here to meet current demand. Up until the past ninety days, we have been sending goods out of this country for relief and otherwise in such quantities as to seriously shorten the domestic supply. In the very nature of things, this could have no other logical effect than to raise prices here, especially when it is coupled with a national income that puts effective buying power at an all-time high. Heavy effective demand plus short supply means only rising prices, and that is precisely where we are today. Let us look at this now.

The domestic demand for consumption goods is unparalleled. The same is true of the demand for consumer durable goods such as automobiles, stoves, furniture, and a host of other articles. The demand for housing has never been equalled. Indeed, the shortage of it amounts to almost a national calamity, especially as it affects the veterans of the war and their families. The domestic demand coming from business for improvement of plant, for modernization, for plant expansion, and for a thousand-and-one other purposes seems at the moment to know no bounds. Indeed, business is clamoring for supplies for such purposes and simply cannot get them. It has the funds. In most cases, it has the will. But the things it wants are not to be had. On top of all this, there are tremendous demands due to spending by government on goods for export, for the armed services, for government supplies of one kind and another. Demand! Demand! Demand for goods everywhere, and the purchasing power available to make the demand effective! What else could any one expect but higher prices in face of the short supply?

Now, it is both interesting and enlightening to see from whence comes the purchasing power that is at the root of this demand. It comes from four sources:

(1) Current earnings which are very high and which are being placed every payday in the hands of some 60,000,000 people gainfully employed. That is something of a record! It means current income that is almost without precedent.

(2) The invasion of savings from past earnings. It is now a matter of public knowledge, and of private concern, that many of our people are drawing down from their nest-eggs to meet the increased cost of living. Savings bankers, commercial bankers who take savings deposits, and the government which sells its savings bonds, as well as the bankers who redeem them, are all aware of this fact. Labor leaders and communist agitators know it too. It is not healthy, but it is a fact.

(3) A reduction in current savings. The record again shows that this is so, and the point need not be labored here.

(4) There is the tremendous spending by both business and government, all of which helps to swell the stream of purchasing power throughout the country.

They all add up to terrific pressure on the price level when goods are in short supply, and in the final analysis they account in large measure for our inflationary boom.

Question of "Boom or Bust"

Does all this mean that we are headed for an inevitable "bust"?

There are those who say "Yes." They base their reasoning on the record of our economic history, and point to the fact that after all past wars this is exactly what has happened. Any price chart will show that after the War of 1812, after the Civil War, and after World War I, we had calamitous "busts." So much for the record.

But there are others who say "No." They are willing to admit the pertinence of the past analogies — up to a point — but they nevertheless insist that this time the situation contains important new factors. For example, this time there are some 16,000,000 organized workers who have a new economic and political power with respect to wages. In addition, this time the farmers have organized power, and legislative support, with respect to the prices of farm commodities. These two new factors, so the argument goes, mean that higher wages and higher farm prices are now more or less rigid. Both of them enter into all costs; since this is so, a bad price break cannot come; and there can be no "bust" without a serious break in prices.

Well, each of us is at liberty to accept whichever side of the argument he pleases. The fact remains that neither of them is very comforting. For, if the analogy of the past is repeated and a bust comes, there will be serious readjustments to be made during a period of bad times which even bankers cannot escape. If, on the other hand, no bust comes, then there are other serious readjustments still to be made which even bankers will be unable to avoid. One of the worst of these will be the wiping out of much of that potential purchasing power which many of us have built up in preparation for retirement. Besides, it cannot be overlooked that there will be some millions of people, middle-aged and over, as well as more millions on fixed incomes, who will be subjected to a good deal of hardship simply because they do not have the time or the power to make the needed adjustments. Hence, we shall be partly damned if we have a bust and partly damned it we don't.

There is one shadow, however, that overhangs our whole current scene. It is the shadow of Russia. It might easily be said that at this moment, while America and her friends are hoping to avoid a crash, Russia and her friends are praying that it may come here. These doctrinaires who accept the Marxian philosophy are firmly convinced that our capitalistic system carries within itself the seeds of its own ultimate collapse and destruction. They insist that booms and busts are inherent in capitalism.

Right now, they seem to be finding unholy glee in our embarrassment by inflation. To them, it represents the oncoming of the death throes of the system and the opportunity for the advent of world-wide Communism.

Can we cheat them of their prey? Will we? Only an infallible prophet could answer that question under present circumstances. Our economic future seems to be in the lap of the gods.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Oct. 26	97.1	96.8	94.1	90.3
Equivalent to—					
Steel ingots and castings produced (net tons)	Oct. 26	1,699,200	1,693,900	1,646,700	1,591,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct. 11	5,245,300	5,207,550	5,217,300	4,737,400
Crude runs to stills—daily average (bbls.)	Oct. 11	5,296,000	5,309,000	5,318,000	4,801,000
Gasoline output (bbls.)	Oct. 11	16,519,000	16,458,000	16,505,000	14,921,000
Kerosine output (bbls.)	Oct. 11	2,253,000	2,071,000	2,156,000	1,958,000
Gas oil and distillate fuel oil output (bbls.)	Oct. 11	6,539,000	6,241,000	6,053,000	5,942,000
Residual fuel oil output (bbls.)	Oct. 11	8,777,000	8,517,000	8,655,000	8,220,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 11	82,202,000	81,607,000	82,509,000	87,724,000
Kerosine (bbls.) at	Oct. 11	23,057,000	22,778,000	21,832,000	21,528,000
Gas oil and distillate fuel oil (bbls.) at	Oct. 11	61,098,000	60,223,000	57,619,000	64,872,000
Residual fuel oil (bbls.) at	Oct. 11	57,279,000	57,504,000	56,168,000	60,458,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 11	956,862	942,533	922,360	899,443
Revenue freight rec'd from connections (number of cars)	Oct. 11	743,248	735,966	682,209	708,467
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Oct. 16	$91,338,000	$92,983,000	$90,627,000	$108,205,000
Private construction	Oct. 16	57,208,000	44,819,000	45,897,000	80,215,000
Public construction	Oct. 16	34,130,000	48,164,000	44,730,000	27,990,000
State and municipal	Oct. 16	29,869,000	43,958,000	33,550,000	26,160,000
Federal	Oct. 16	4,261,000	4,206,000	11,180,000	1,830,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 11	12,750,000	12,190,000	12,600,000	12,518,000
Pennsylvania anthracite (tons)	Oct. 11	1,330,000	1,289,000	1,169,000	1,192,000
Beehive coke (tons)	Oct. 11	135,200	*132,900	135,200	125,400
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 11	303	*327	291	281
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 18	4,946,090	4,958,062	4,977,141	4,539,712
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 16	75	62	73	23
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 14	3.19141c	3.19141c	3.19141c	2.73011c
Pig iron (per gross ton)	Oct. 14	$36.96	$36.93	$36.93	$28.13
Scrap steel (per gross ton)	Oct. 14	$39.50	$38.08	$37.75	$19.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 15	21.200c	21.225c	21.225c	14.150c
Export refinery at	Oct. 15	21.425c	21.425c	21.425c	16.925c
Straits tin (New York) at	Oct. 15	80.000c	80.000c	80.000c	52.000c
Lead (New York) at	Oct. 15	15.000c	15.000c	15.000c	8.250c
Lead (St. Louis) at	Oct. 15	14.800c	14.800c	14.800c	8.100c
Zinc (East St. Louis) at	Oct. 15	10.500c	10.500c	10.500c	9.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 21	121.92	121.95	122.27	121.43
Average corporate	Oct. 21	113.89	114.08	115.82	116.61
Aaa	Oct. 21	118.80	118.80	120.63	121.04
Aa	Oct. 21	117.00	117.00	119.00	119.20
A	Oct. 21	113.89	114.27	115.63	116.22
Baa	Oct. 21	106.39	106.92	108.34	110.34
Railroad Group	Oct. 21	108.88	109.24	111.07	112.37
Public Utilities Group	Oct. 21	115.24	115.63	117.20	117.80
Industrials Group	Oct. 21	117.60	117.60	119.20	120.02
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 21	1.52	1.51	1.49	1.63
Average corporate	Oct. 21	2.96	2.95	2.86	2.82
Aaa	Oct. 21	2.71	2.71	2.62	2.60
Aa	Oct. 21	2.80	2.80	2.70	2.69
A	Oct. 21	2.96	2.94	2.87	2.84
Baa	Oct. 21	3.37	3.34	3.26	3.15
Railroad Group	Oct. 21	3.23	3.21	3.11	3.04
Public Utilities Group	Oct. 21	2.89	2.87	2.79	2.76
Industrials Group	Oct. 21	2.77	2.73	2.69	2.65
MOODY'S COMMODITY INDEX	Oct. 21	453.2	447.6	427.4	347.2
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Oct. 18	233.1	232.1	234.0	192.6
Fats and oils	Oct. 18	225.6	234.8	222.0	245.6
Farm products	Oct. 18	269.2	266.3	261.9	230.9
Cotton	Oct. 18	299.9	297.6	303.0	329.0
Grains	Oct. 18	307.8	294.9	284.9	218.0
Livestock	Oct. 18	262.5	262.1	256.9	224.0
Fuels	Oct. 18	190.3	*190.3	190.6	154.2
Miscellaneous commodities	Oct. 18	170.9	*169.3	168.6	144.7
Textiles	Oct. 18	215.4	215.7	216.3	206.0
Metals	Oct. 18	159.2	159.1	159.1	125.0
Building materials	Oct. 18	232.6	*232.7	226.6	178.5
Chemicals and drugs	Oct. 18	152.4	151.5	149.6	128.2
Fertilizer materials	Oct. 18	135.5	135.4	134.0	121.9
Fertilizers	Oct. 18	136.9	135.7	135.7	125.1
Farm machinery	Oct. 18	127.1	127.1	127.1	116.5
All groups combined	Oct. 18	214.3	*213.6	212.6	178.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 11	165,049	233,861	180,203	158,176
Production (tons)	Oct. 11	185,582	176,834	186,174	169,988
Percentage of activity	Oct. 11	102	100	103	99
Unfilled orders (tons) at	Oct. 11	471,355	492,845	472,229	605,059
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 17	145.6	146.3	142.6	133.4
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Oct. 11	158.0	157.1	157.4	126.0
Farm products	Oct. 11	190.1	187.5	187.3	160.2
Foods	Oct. 11	180.0	178.3	180.9	137.7
Hides and leather products	Oct. 11	189.2	186.7	185.2	141.3
Textile products	Oct. 11	141.2	141.0	140.4	126.1
Fuel and lighting materials	Oct. 11	115.4	115.3	114.4	95.0
Metal and metal products	Oct. 11	150.7	150.7	150.4	114.2
Building materials	Oct. 11	183.3	182.3	179.4	134.1
Chemicals and allied products	Oct. 11	125.1	123.9	120.4	98.8
Housefurnishings goods	Oct. 11	132.7	131.9	132.1	115.3
Miscellaneous commodities	Oct. 11	116.1	115.9	117.9	102.2
Special groups—					
Raw materials	Oct. 11	175.0	172.9	171.9	146.3
Semi-manufactured articles	Oct. 11	152.1	151.3	150.4	117.1
Manufactured products	Oct. 11	151.7	151.4	152.5	118.6
All commodities other than farm products	Oct. 11	151.0	150.4	150.9	118.4
All commodities other than farm products and foods	Oct. 11	139.0	138.6	138.1	112.6

*Revised figure.

	Latest Month	Previous Month	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of September	6,775,158	*6,982,086	6,555,566
Shipments of steel products, including alloy and stainless (net tons)—Month of July	5,278,223	4,974,566	4,994,377
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS—U. S. DEPT. OF COMMERCE—Month of September	$18,700,000	------	$16,900,000
CLASS I RRS. (ASSOC. OF AMER. RRS.)—Month of August:			
Number of miles represented	227,345	227,361	227,345
Total operating revenues	$745,257,959	$705,361,414	$710,291,517
Total operating expenses	565,605,880	555,361,881	555,902,703
Operating ratio—per cent	75.89	78.73	78.26
Taxes	$84,227,673	$74,948,797	$58,212,561
Net railway operating income before charges	80,824,802	60,958,451	81,855,564
Net income after charges (est.)	52,300,000	37,000,000	53,400,000
COAL EXPORTS (BUREAU OF MINES)—Month of July:			
U. S. exports of Pennsylvania anthracite (net tons)	528,831	714,249	657,289
To North and Central America (net tons)	53,415	365,452	434,018
To South America (net tons)	------	3,940	------
To Europe (net tons)	464,776	344,571	223,269
To Asia (net tons)	------	286	------
To Africa (net tons)	------	------	2
COKE (BUREAU OF MINES)—Month of Aug.:			
Production (net tons)	6,203,299	*5,793,729	6,034,500
Oven coke (net tons)	5,633,853	5,372,665	5,494,603
Beehive coke (net tons)	569,446	*421,064	539,909
Oven coke stocks at end of month (net tons)	983,112	772,920	806,529
COPPER INSTITUTE—For month of Sept.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	83,784	*83,307	69,743
Refined (tons of 2,000 lbs.)	92,088	88,052	67,803
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	95,582	96,304	113,158
Refined copper stocks at end of period (tons of 2,000 lbs.)	80,113	*77,212	98,619
FAIRCHILD PUBLICATIONS RETAIL PRICE INDEX JAN. 2, 1931=100 (COPYRIGHTED) AS OF OCT. 1—			
Composite index	136.4	136.1	127.3
Piece goods	135.9	135.7	132.8
Men's apparel	135.4	134.8	123.2
Women's apparel	131.4	131.2	126.5
Infants' & children's wear	126.7	126.5	114.7
Home furnishings	143.8	143.4	131.5
Piece goods—			
Silk	122.9	122.8	131.7
Woolens	134.1	133.9	131.9
Cotton wash goods	156.3	156.0	134.3
Domestics—			
Sheets	172.3	171.0	116.4
Blankets & comfortables	139.1	138.9	131.9
Women's apparel—			
Hosiery	105.4	106.6	118.1
Aprons & house dresses	145.2	145.0	133.2
Corsets & brassieres	132.2	131.8	124.7
Furs	149.5	148.1	158.8
Underwear	132.0	131.2	120.4
Shoes	131.1	131.0	116.1
Men's apparel—			
Hosiery	137.6	136.7	125.6
Underwear	145.3	144.1	129.8
Shirts & neckwear	129.4	129.4	119.7
Hats & caps	126.6	126.7	119.0
Clothing including overalls	128.0	127.5	120.5
Shoes	159.7	158.2	124.1
Infants' & children's wear—			
Socks	127.9	127.8	115.9
Underwear	119.2	119.0	110.0
Shoes	139.7	139.5	121.6
Furniture	147.0	146.8	137.8
Floor coverings	149.3	149.1	135.5
Radios	125.0	125.0	117.4
Luggage	128.3	127.6	124.3
Electrical household appliances	135.8	135.1	119.5
China	129.6	128.9	118.4
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of September:			
1935-39 Average=100	†130.5	†132.7	130.4
MONEY IN CIRCULATION—TREASURY DEPT.—As of August 31	$28,434,214,326	$28,148,676,876	$28,447,643,163
NEW YORK STOCK EXCHANGE—			
As of Sept. 30:			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$569,697,227	$550,116,782	$632,282,599
Credit extended to customers	77,703,728	76,590,962	81,805,758
Cash on hand and in banks in U. S.	395,582,858	398,684,779	496,513,658
Total of customers' free credit bal.	629,680,553	655,900,273	729,313,360
Market value of listed shares	67,521,963,215	68,184,122,479	66,863,605,035
Market value of listed bonds	140,498,941,444	141,235,834,445	139,784,237,292
Stock price index, 12-31-24=100	77.5%	78.3%	80.2%
Member borrowings on U. S. Govt. issues	$138,969,392	$150,779,406	$156,883,102
Member borrowings on other collateral	234,602,893	184,631,621	251,041,662
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of September:			
Net sales	$123,096,300	$308,111,500	$74,053,450
Net purchases	------	------	------
U. S. GOVT. STATUTORY DEBT LIMITATION—As of Sept. 30:			
Total face amount that may be outstanding at any one time	$275,000,000,000	$275,000,000,000	$275,000,000,000
Outstanding—			
Total gross public debt	259,144,588,455	260,097,101,993	265,368,855,314
Guaranteed obligations not owned by the Treasury	75,959,624	79,064,542	399,639,725
Total gross public debt and guaranteed obligations	$259,220,548,079	$260,176,196,535	$265,768,495,039
Deduct—other outstanding public debt obligations not subject to debt limitation	869,662,221	875,289,809	949,000,000
Balance face amount of obligations issuable under above authority	$258,350,885,858	$259,300,906,726	$264,819,000,000
	$16,649,114,142	$15,699,093,274	$10,182,000,000

*Revised figure. †Preliminary figure.

Steel Industry and World Economic Conditions

(Continued from page 13)

said that the automobile and other industries could increase their production if they could get more steel, which is true. But it is also true that the steel industry is in the same boat. With more raw materials, it could increase *its* production. The industry has the capacity to make 91,000,000 tons of ingots. In other words, about 7,000,000 tons of its capacity will go unused this year mainly because more raw materials—particularly scrap and metallurgical coal—are unavailable.

The critics clamor for additional steel capacity. They suggest that new plants be built. They apparently do not realize that if you could double capacity overnight, you still could not get more steel without raw materials to feed the extra capacity and trained manpower to operate it. The direct expansion of capacity is a lengthy process that must go all the way back to the opening of new iron ore and coal mines. It would take at least three years to make the overall increase of from 10% to 20% that is demanded, and in the process, present steel users would be deprived of four tons of steel for each ten tons of added capacity.

Capacity Expanding

And now for a bit of a paradox! At the very time that the steel industry is accused of not expanding, it *has* been expanding. In fact, since the war it has been carrying on the greatest program of expansion and improvement in its history. The various steel companies have been going along quitely adding to capacity in ways that would interfere least with current production. They have probably been too quiet about it. But here is the picture. On programs started at the end of the war and still in effect, the industry will spend an aggregate of $1,000,000,000 and several hundred millions of dollars in addition is now projected. You can appreciate the extent of this program from the fact that $1,000,000,000 is more than one-third of the total present net property investment in the steel industry.

In this year and in 1948, the expansion program will bring at least 3,000,000 tons of new ingot-making capacity into production. It also will provide additional and improved facilities for finishing such products as sheets, strip, and others of importance to the automobile industry.

National Steel Corp. is a major contributor to this total industry program. The amount of money spent on our current program plus amounts we still expect to spend, total approximately $100,000,000. All of this work will be completed within two years. Our ingot capacity will be increased by 800,000 tons, or by slightly over 20%. Within the next two months, Great Lakes Steel Corp. will place in production new facilities which will provide 300,000 tons of this new capacity. The remaining 500,000 tons will come largely from the use of oxygen that will be provided by plants to be built at Weirton next year and at Great Lakes the following year.

The plant to be installed at Weirton will be a single-unit plant with a capacity of 400 tons per day—the first of this size in the steel industry. Provision will be made for the addition of other units. Our initial interest in oxygen will be in its use in the blast furnaces but we will also be equipped to apply it in Bessemer and open hearth operations—where we have used it experimentally for almost two years with great success. The chief advantage of oxygen is that it speeds up the rate at which furnaces process materials and thus increases the production of existing facilities. On the basis of our experiments and studies, we consider it conservative to estimate an ultimate increase of 20%. Other steel companies are also pioneering in the use of oxygen. I believe it will prove to be one of the greatest advances in the technology of steel making—and one that will probably lead to beneficial changes in the design of furnaces, methods of material handling, and other aspects of steel production.

I have given you this picture of the steel industry to establish a clear-cut comparison between the facts of steel and the criticisms of steel. It would be most unfortunate and unfair if such unjustified statements created in the public mind the impression that the steel industry is not producing efficiently at the very time that it is turning out its greatest peacetime tonnage of steel—that it is not expanding and is even "plotting" to reduce capacity at the very time that it is carrying out the greatest expansion program in its history—that it is timidly bracing itself against an anticipated depression at the very time that it is developing with vigor and ingenuity and at great expense an important new advance in the technology of steel making. Unfortunately again, it is on the basis of such statements that public support is built up for the further invasion of the private economy by government—to the detriment of both industry and the public.

Awhile back I said that the steel and automobile industries are closely tied together — so closely, that the progress of one means the progress of the other. You men of the automobile industry know that the steel industry has always been alert to the needs of steel-consuming industries and eager to help solve their problems. You know that as you developed new types of cars and trucks requiring different kinds of steels, our industry never spared time, effort or expense to get you those steels. Your design of the monitor top and one-piece fenders created a need which the steel industry met by building mills that could produce wider sheets than had ever been rolled before. And this is only one of many examples in your industry and others. You know also how strenuously individual steel companies have competed with each other to be the first to meet your requirements.

The fact is that the steel industry is one of the most competitive in the country. Each company is extremely jealous of its position and works night and day to maintain that position. The history of the industry shows that it has always been keenly interested in increasing the number of applications and the total use of steel. Steel producers have always been optimistic about the prospects of the steel industry, other industries, and the country in general, and this needs no better proof than the fact that the steel industry has always built capacity in advance of demand.

Furor About High Prices

Still another criticism is made of the steel industry. But in this one your industry and other industries as well as agriculture and commerce have a share. I refer to the furor about high prices. Characteristically, government attempts to put the blame for high prices on corporations. Yet it is government, itself, that is chiefly responsible for prices being as high as they are today. If there has ever been a time in any country when goods were scarce and money was abundant and prices were not high, I would like someone to point it out to me. Despite all efforts to theorize it out of existence, the old law of supply and demand keeps stubbornly at work. It invariably upsets the nicest schemes of government "planners." It was inevitable that prices would be higher after the war. Among other things, part of the money paid for war production was held over to swell the number of dollars bidding for scarce peacetime goods. In the normal working of a free economy, goods and services will eventually come into balance with the supply of money and true standards of value will be established. This happened after the first world war when prices and income stabilized on a higher level than before. Had not government intervened, the same thing would have happened after this war. Prices and income would have been higher but not so high as at present.

Government is the principal instigator of high prices for three reasons. First, it has deliberately forced on the country policies which raised prices. Second, it maintains the cost of government on an excessively high basis, and the cost of government is a part of every other cost. Third, government spending is inflationary because of waste and inefficiency.

A sizable part of today's high prices can be traced directly to one of the most inexcusable blunders ever made by a Federal Administration. I m m e d i a t e l y after the war, the so-called profound minds in Washington and in the high councils of the national unions decided that a great depression was only a matter of months away. The antidote they concocted for this imagined depression was a national pattern of large wage increases. You remember the hysterical campaign in which Administration and unions joined to put this "pattern" over—the strikes, the statistics, later admitted to be phony, the absurd contention—made with straight face—that wages are not a cost of production. You remember that the Administration, itself, finally set the amount of the increase and bludgeoned industry into accepting it. This whole series of stumbling steps are a perfect example of so-called management by government—and a warning for those who care to heed it. The immediate effect, was a large increase in the number of dollars bidding for scarce goods and, of course, an increase in the cost of producing goods.

Industries absorbed the increased cost for awhile, but naturally could not keep on doing so. Government became bitterly critical when prices were raised. Yet the plain fact is that the price increases have not been sufficient to cover increased costs. The cost of making steel in 1947 is 70% greater than prewar. Steel prices in 1947 are only 38% higher than prewar, and this is much less than the increase in average wages, in the price of most other products, or in the general price index. Government and unions point to current steel profits as evidence that prices are too high. They ignore the fact that profits are higher only because production and sales are higher. This is shown beyond question by comparing the ratio of profits to sales in 1947 with the same ratio applying to years immediately preceding the war. Average profits in the years 1939, 1940 and 1941 were 6.73% of sales. In the first six months of 1947, profits were 6.66% of sales. In other words, present profits are lower in proportion to sales. If steel operations were to decline to 80% of capacity, there would be no profit under present costs. I am sure this situation in the steel industry is duplicated in the automobile industry and others. And it is a matter of interest that the progress of industry has been such that even at today's so-called inflated prices the buyer gets a better automobile and other products for less money than he did years ago when the buying power of the dollar was much greater.

Government makes prices higher in other ways. Most important is the extravagant price tag government places on its own services. Cost of government is part of the cost of everything. The real price of any article is the selling price minus taxes, just as actual wages are the amount earned minus taxes. And taxes not only operate directly to make prices higher and wages lower; they have a further inflationary effect because of the inefficiency and waste in government spending. Let us take the steel industry as an example of the tax effect on prices. The present federal tax rate is 38%. While I have made no detailed study, I am quite convinced that if the federal tax rate were cut in half, we could reduce the price of steel by $2.50 per ton or more. In addition, since the cost of everything the steel industry buys could be reduced, we might be able to reduce steel another $2.50 per ton. After all, it is finally the consumer who pays all taxes. Taxes on personal income are also a factor in keeping prices higher because they create pressure for payment of larger dividends. If dividend payments could be lower so could net earnings, and this would be reflected in lower prices.

The budget of $37,000,000,000 proposed by the Administration for the current fiscal year, was an entirely unjustifiable burden to place on the people of this country. It is more than four times as much as the top budget in the free-spending 1930's. This huge taxation is due to only one thing—the stubborn determination of the Administration to continue into peacetime and a financial burden which the public accepted only to win the war. It is a case of burglarizing the people so that Big Government can keep on living in the style to which it has become accustomed. People should realize that government has no money of its own. Consequently, every cent it spends—whether by taxing or borrowing—is the people's money, and the more government spends, the less the people can spend and save for themselves.

High government taxing and spending is a major political instrument of the present Administration as of the other New Deal administrations before it. By spending it maintains government payrolls — and votes — at their bloated wartime levels and retains the adherence of the national union high commands and the left wing groups which are its political allies. I am not here to make a political speech. But I say to you frankly that, in my opinion, the present Administration will not and can not change its ways. Its personnel is too deeply steeped in the philosophy of spending and government control of the economy. A change for the better can be brought about only by placing control of the government in the hands of men with a different philosophy. Ours being a two-party system, this means election of a Republican Administration in 1948. This is the only practical alternative to government of the present type, and, as practical men, I commend it to you.

The Administration will undoubtedly try to win support for its continued high spending on two major grounds: The need for widespread government activity to combat high prices and inflation, and the need for huge sums of money to be devoted to the aid of Europe.

We have already seen that in the domestic economy, the effect of government activity is to raise prices, not lower them. One more example. Withdrawal of food from United States stocks for shipment abroad naturally exerts an upward pressure on prices, and government methods of procuring food makes the situation worse. It was recently reported that at times three government agencies have been bidding against each other and all private buyers for wheat. What happened was best described by a private buyer who said, "No one can bid against the United States Treasury."

"Stop, Look and Listen" on Foreign Aid

As to foreign aid, it is my considered opinion that our national welfare demands a national policy of "Stop, Look and Listen." There is no situation in any country of Europe that was not anticipated many months ago. Aside from direct relief to help fight hunger and cold during the coming winter—which I wholeheartedly favor giving—there is nothing our country can do or should do for European countries on any so-called "emergency" basis. Yet the Administration has been carrying on a highly emotional campaign to make the American people think that if our country does not immediately commit itself to an outpouring of billions of dollars annually over a period of years, Europe will "collapse," or "go communistic."

To my mind, this is entirely unrealistic. Nations just don't collapse. Their condition may be good or bad, but they go on living, and they preserve their national identity. If we did nothing at all in the way of aid, you may be assured that Europe would survive. As to communism—and, of course, I refer to Russian communism—there are two types of countries. One type is the country which is communist because it lives under the shadow of the Red Army, or the country now communist, or likely to go communist, because its people have always been oppressed and make no distinction between one form of oppression and another. With such countries no amount of aid from us would make any difference. The other type of country will not go communist—with or without aid from us—because of the character of their peoples. The average Englishman or Frenchman, for instance, has known personal freedom too long. He is individualistic. He would quickly revolt because he would never submit to the rigid control and regimentation of Russian communism. The question of aid to Europe is one that must not be considered in the atmosphere of hysteria and scare psychology which the Administration tries to create. It demands cool, practical appraisal and action based on investigation that is thorough regardless of how much time is required for it.

Just last week, I was discussing this same subject in my office with a member of Congress. I made the point that our country should act on foreign aid only when it was sure it had the facts. He replied that, unfortunately, we were not always able to get the facts. I disagreed with this statement emphatically. As Engineers, you men know that you can always get facts if you go about the job in the right way and spend enough time on it. That is what I told him. I said further that if Congress voted money for foreign aid without knowing the facts, it would fail in its duty because it would undoubtedly waste the people's money.

I went to Europe determined to make as careful study of conditions as I could. In addition to my own observation and many casual contacts with rank and file people, I had the advantage of extensive interviews with a number of outstanding men in industry and finance. They had broad and intimate knowledge of both the conditions in their respective countries and in Europe generally. I was surprised to learn that these

men did not think it would be helpful for the United States to pour funds into their countries. On the contrary, they thought it would be harmful because it would merely set back the day when the governments and peoples of those countries would come to grips with their own problems and begin to solve them out of their own resources and labor. They pointed out that most of the nearly $4,000,000,000 loaned to Britain has already been spent—and largely wasted.

Among the businessmen of both England and France, I found no confidence in the governments of those countries—and this feeling was shared by most rank and file people with whom I talked. In both governments, of course, socialistic ideas prevail. Instead of doing the practical things that would get industries back to work producing the things that people need so badly, office holders are devoting time, energy, and what little ability they have, to socialization of industry and the country. To win support for this program, people are encouraged to believe that they can live without working and that government will take care of their every need from cradle to grave. Unfortunately many of the people, particularly members of labor unions, accept these promises at face value.

To the visitor who has heard so much about the harrowing conditions in those countries, it is amazing to find people working no more than 40 hours a week at the outside, and in that time, making no real effort to produce. The condition of the British coal industry is characteristic of the whole situation. Prewar coal production was 240,000,000 tons annually. Today, with the same mines and miners, production is 180,000,000 tons. The mines are nationalized and government mismanagement is solely responsible for the deficiency. That missing 60,000,000 tons of coal would enable every industry in Britain to increase production. In addition, it would allow a surplus for export which would aid conditions on the Continent and bring back to Britain goods it sorely needs. The sad thing about this is that it is entirely unnecessary. Coal output and production of British industry as a whole could be increased immediately simply by going to the six-day week.

France affords another example. The official rate for the franc is 125 to the dollar but the true value—as indicated by the black market—is 250 to the dollar. Government employees and many industrial workers are paid at the official rate but they have to buy necessities at the black market rate. They get so little in return for their money that it just doesn't seem worthwhile to make much of an effort to earn it. As a result, low productivity is the rule. The official rate also operates to double the price of French exports to foreign markets, and thus creates the dollar shortage about which France complains so much. By adjusting the official rate to the true value of the franc, France would help itself greatly. Why it doesn't do so, I fail to understand.

Socialism Discourages Production

These are two isolated examples. Others could be cited indefinitely. They would tell the same story. By word and action, socialistic governments discourage work and production—and it is in work and production that the countries of Europe must find their salvation. There is proof for that statement in another example—that of three of the smallest European countries, Belgium, Holland, and Luxembourg. These three countries have followed a course entirely different from that of the other countries of Europe. They have made a mutual customs and trade agreement allowing the free interchange of economic activity across their borders, and have given their combined national areas a new name—Benelux—a combination of letters from the names of three countries. Beyond this, they have done one other thing—they have given private enterprise the "green light" to work those countries back to prosperity. These countries ask very little aid from us. They are now not only producing for their own needs but are actually building a surplus to export in return for needed imports. If countries with such small populations, areas and resources can do this, what is it that prevents England, France and others from doing likewise?

People may talk all they please about the destruction and deterioration of plant and equipment in these countries as a result of the war, of the depleted condition of their national treasuries, and of other broad aspects of their national economies. But one glaring fact remains unexplained. They do not make the most of what they have. They could increase their production all along the line by the simple expedient of putting in more hours of work. A workweek of 40 hours or less is now the rule. If, as they say, their situation is so desperately serious, why don't they go to the six-day week? I am positive that, under similar circumstances, the American people would do this without a second thought.

In short, gentlemen, I do not believe that the countries which ask our aid are doing enough to help themselves. And if they should suddenly acquire the spirit of self-help, nothing much would be gained if they continued to live under the mismanagement of governments dedicated to socialistic experiment.

We speak and think of aid to Europe in terms of dollars, but it should be remembered always that dollars are merely certificates of exchange for American goods and American labor. In the Oct. 13, 1947 issue of "Newsweek," it is reported that the Population Reference Bureau, a research organization estimates that the people of the United States—7% of the world's population — now does 40% of the world's work in providing food, clothing and shelter. I do not consider it just to ask Americans to labor extra hours to make up for labor that Europeans are unwilling or unable to perform because of bad government. I do not consider it just or fair to ask Americans—who in the overwhelming majority believe in personal freedom and private enterprise—to give work and goods so that European politicians can sustain a little longer the fiction that regimentation and socialism can provide abundance for their peoples.

In giving any aid to Europe beyond immediate relief we should move with extreme deliberation. First, we should not accept any country's assertions as to its needs but get the actual facts. How necessary this is was shown by the experience of an associate of mine. He was one of a group called to Washington to devise means of immediately getting 130,000 tons of steel for Germany. His group asked for a detailed explanation of the need for this tonnage. None could be offered. A representative was sent to Germany to investigate. As a result of his investigation, the demand for 130,000 tons of steel was withdrawn completely.

So we should get the facts. And we should not accept as reliable the statements made by our diplomats, whose motives may be political and whose training and experience does not enable them to make judgments on practical matters. To get the facts we should depend on practical men of the first rank from industry, agriculture and other fields. After we know the true needs of a country we should determine how much of those needs the country could fill itself if it made a genuine effort to do so. With the net need thus established, we could then decide how much aid we were in position to grant. Any aid should be granted only under agreement that it would be used under specified terms, that we had the right to have representatives check the manner of its use, and that we had the right to suspend aid in the event of misuse. If this suggested procedure sounds cold-blooded and practical, I suggest that it will get better results and win greater respect than the emotional and haphazard conduct of the Administration. If we are more businesslike in the beginning, there is less chance of our being called "Uncle Shylock" in the end.

The question of foreign aid should be approached in the realization that the problems of Europe will be with us for years and for decades. Nothing that we can do will bring recovery in Europe today or tomorrow. Our total aid should be held well within the practical limits of our own abilities and resources. It should be extended only to those countries which show the sense and the willingness to use it toward practical ends. And above all, we should frankly use our aid as an instrument to bring about systems of personal freedom and the free competitive economy in the countries aided. We should do this with the larger aim of achieving a world condition of freedom, prosperity and peace.

Put Our Own House in Order

If we are to act on this principle abroad, certainly we cannot neglect it at home. We must put our own economic house in order. We are handicapped in that task today because our government is in the hands of men whose thinking is tainted by some of the same social and political ideas that infect Europe. The central idea is that government must be strong and the individual weak; that government must order and the individual obey. Communism and fascism represent this idea in its extreme form, but it is also represented in modified form by the socialism of Britain and the New Dealism of the United States. America grew great and strong under the opposite principle. We cannot offer the world an alternative to communism by embracing its principles—even in part. We must vigorously and wholeheartedly affirm and practice true American principles.

As a nation, we have our great opportunity to do this in the next presidential election—the lines for which are now being drawn. What we do in that election will be of vital importance, both to ourselves and as an example to foreign countries, including Russia. The national policies that the American people decide on, the men they elect to carry out those policies will, of course, profoundly affect the manner and condition of life within the borders of the United States. But the election will also tell the world whether the United States still has confidence in the great principles of human freedom on which it was founded and intends to stand on them.

All over the world the issue of the controlling state versus individual freedom and the free competitive economy is basic to all other issues. However, it may be obscured, it will be the basic issue in the next presidential election. The strong assertion in that election of America's determination to be free—socially, politically and economically—can be a powerful influence for the good of our own country — for the good of the world. As practical men and as patriotic citizens, I urge each one of you to enlist in the battle of freedom.

What Profit From Dow Theory?

(Continued from page 5)

SEC analysis of Sept. 3, 1946, trading clearly shows the great uniformity of Dow behavior). If this be true, that is if it is permissible to jump the gun, either with pure psychic intuition, or by trying to outguess other Dow followers with an admixture from the plethora of competing trend-charting systems; then we have left only a rank perversion of the Dow theory. How "Dow-ish" discretionary intuition can go wrong is shown by Hamilton's own personal "recognition" of a bear market in 1926, which perversal turned out to have been only a minor secondary reaction in the bull market which in the following three years doubled itself in the most violent rise in speculative history.

Another objective demonstration of the difficulty of discovering *momentum* was presented by a distinguished university professor of economics before the annual joint meeting of the American Statistical Association and Econometric Society in Cincinnati on Dec. 31, 1932 (cited in "Fallacies of the Dow Theory and Confirmations," by Norman Wright). This took the form of an analysis made at the request of a Dow advocate from all 255 editorials written since Dow's death in 1902, embodying Dow theory interpretations by William P. Hamilton, editor of the "Wall Street Journal" and leading Dow exponent. First each editorial was rated by five intelligent readers as being bullish, bearish or doubtful. It was assumed Hamilton would have bought when his editorials were "bullish," sold them when he became "doubtful" and sold short when "bearish." The net result of Hamilton's forecasts during the 26 years were the same results as he could have expected to get from flipping a coin: 45 successful and 45 unsuccessful. His forecasts on the railroad averages yielded an annual return of 5.7% annually, no greater than would have been gained from dividend income alone. Likewise, his transactions in industrials would have shown a return of 12% per annum against 15½% which would have been gained through simply holding the stocks outright throughout the period.

And it must be remembered that, in addition to loss of income while trying to capture the capital swings, there likewise must be cut in on "the kitty," the broker and the tax man. Brokerage commissions must be taken into account not only as a constant element effectively altering the 50-50 chance as above-cited; but there are two important factors making its impact greater on the Dow trader than on the long-term investor. In the first place, the "technical" Dow operator will be more active—accentuating the incidence of commissions over that on the income-desiring or otherwise long-term investor; and in the second place, the commission must be looked on as a cut figured as a percentage not on the amount of principal involved, but on the "margin" of the capital expected to be made or lost. Thus, under the proposed new commission rates, with taxes an in-and-out transaction of 100 shares of stock at 50 would cost about $70 or only 1.4% on the invested capital of $5,000. But if the chartist is looking to profit from a 10 point swing, then this "take" by the commission "kitty" amounts to 7%.

The "House Kitty" deduction for capital gains taxation, and exactly how it changes the odds against the speculator, is not so easy to calculate, either absolutely or comparatively. But its existence must be recognized when appraising the results in beating the market's fluctuations. Because of the 5-year carry-forward and carry-back privileges in our tax statute, the exact incidence of capital gains taxation on speculative operations is not simple to calculate. Before the carry-back and as our tax used to be, as recognized by the British who have had no capital gains tax, we had a situation where the Government said "heads you lose, tails I win." If the speculator had a profit, 25% was deducted, if he lost, he lost 100%—like the inexorable house cut on the winning bank plays in *chemin de fer*, which connotes odds on all plays. This is somewhat modified by carry-back, but is the same if conceived over a 5-year or full-career play. In other words the individual can figure that over the five-year period or a lifetime, the chances are either for or against his making capital gain or loss on a "net" basis.

In any event, on Dow theory operations the burden of taxation and commissions is particularly severe in view of the smallness of the "profit field" available because of the amount of the market's fluctuation which eludes the operator before a trend is recognized and the "play" is made.

Some Conclusions About Forecasting and Investing

In the preceding weeks we have pointed out various reasons for the sharply growing boom in "technical" market forecasting; and have demonstrated the basic fallacies jointly occurring in the various mechanistic systems for judging the future of security markets. In this instalment we have left the theoretical level, and appraised the ascertainable operating results of the most popular system. Next week we shall cite the broad social effects therefrom.

Meanwhile a word of clarification on our general position on forecasting, insofar as its impact on investing is concerned, now seems called for. Although amusing, enjoyable, and not difficult, a mere binge of debunking forecasters of the New Era and thereafter, including Presidents of our country down to the white-haired economists, would be purposeless and irrelevant. If we were confining ourselves merely to prophecy-debunking, our readers might well ask: "If he thinks there is no way of anticipating the future, what is he trying to prove? Merely that there is no key to investing? Why should we read him; for even if he is correct, we may as well hurry to spend our remaining capital instead of throwing it down the market drainpipe?"

So I want to orient my position by affirming that there is a real answer to the investing problem. But it seems to me that in lieu of starting out with one's own pet theory to be proved eclectically as by a lawyer's brief, it has been more logical first to inspect alternative investing policies and attitudes toward the market, the various popular fallacies and pitfalls, and then to form one's own conclusions as to the most logical and individually suitable investing technique. Disillusionment with methods for forecasting the stock market as a whole is affirmatively constructive, dovetailing with my unswervingly-held principle that the investing problem should be handled with a business-like approach to individual issues on their respective particular merits. As applied to the stock market as a unit, or to groups of issues segregated to fit ratio theories, forecasting is misused as to individual issues, an end in itself; whereas in the business-like individual approach which we advocate, the forecasting is merely a necessary incident, usually more than counter-balanced by a liberal protecting margin of safety.

Hence forecasting skepticism is not only completely consistent with, but indispensable to, a sound investment attitude.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Affiliated Fund, Inc., New York
Oct. 9 filed 2,000,000 common shares (par $1.25). **Underwriter**—Lord, Abbett & Co., Inc. **Purpose**—Proceeds for investment. **Price**—To be offered at market.

Air Products, Inc., Allentown, Pa. (10/24-27)
Sept. 26 filed 200,000 shares ($1 par) common. **Underwriters**—Reynolds & Co., and Laurence M. Marks & Co., both of New York. Price based on market. **Proceeds**—To repay bank loan and for working capital.

Allied Gas Co., Paxton, Ill.
Oct. 9 (letter of notification) 4,020 shares ($10 par) common. To be offered for subscription at $10 a share to common stockholders. Unsubscribed shares will be purchased by Merritt H. Taylor, President. For construction and expansion purposes.

American Cladmetals Co. (11/10)
Oct. 10 filed 1,000,000 shares ($1 par) common. **Underwriter**—Mercer Hicks & Co., New York. **Price**—$1.50 a share. **Proceeds**—To buy machinery and equipment for commercial operations. **Business** — The company was organized in 1945 for the manufacture of cladmetals.

American Fire and Casualty Co., Orlando, Fla.
Oct. 10 (letter of notification) 12,500 shares ($10 par) common. **Price**—$24 a share. Stock will be offered for subscription to stockholders on basis of one new share for each two shares held. **Underwriter**—Southeastern Securities Corp., Jacksonville, Fla. For investment in securities.

• American Telephone and Telegraph Co.
Oct. 16 filed $360,000,000 10-year 2¾% convertible debentures. No underwriting. **Offering**—Debentures will be offered to stockholders of record Oct. 31 on the basis of $100 of debentures for each six shares held. Rights will expire Dec. 15. **Price**—At face amount. **Proceeds**—To finance construction program of the company and its subsidiaries.

• Associated Telephone Co., Ltd. (11/3)
Oct. 16 filed $6,000,000 first mortgage bonds series D due 1977 and 150,000 shares of cumulative preferred stock (par $20). **Underwriters**—Names to be supplied through competitive bidding. **Probable Bidders**—Paine Webber, Jackson & Curtis and Mitchum, Tully & Co. (jointly); White, Weld & Co., Kidder, Peabody & Co. and Lazard Freres & Co. (jointly); Halsey, Stuart & Co. Inc. (bonds only); Stone & Webster Securities Corp. **Proceeds** — To reimburse treasury for capital expenditures. **Bids**—Expected bids will be received Nov. 3.

Belden Manufacturing Co., Chicago
Sept. 22 (letter of notification) 29,164 shares ($10 par) common. **Price**—$10 a share. Offered for subscription to stockholders of record Sept. 29 on basis of one new share for each 10 shares held. Rights expire Oct. 28. No underwriting. For general corporate purposes.

• Belvedere Hosiery Co., Charlotte, N. C.
Oct. 15 (letter of notification) 10,000 shares of common. **Price**—$5 a share. No underwriting. To purchase machinery and for working capital.

Brayton Flying Service, Inc., Robertson, Mo.
March 24 (letter of notification) 50,000 shares ($1 par) 27½ cent cumulative, convertible preferred and 50,000 shares (10c par) common. **Price**—$5 per unit, consisting of one share of each. **Underwriter**—White and Co., St. Louis, Mo. For expansion of operating facilities and for working capital.

• California Water Service Co.
Oct. 21 filed $1,500,000 first mortgage 3¼% bonds, series C, to be sold through competitive bidding. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Dean Witter & Co. and Blyth & Co., Inc. (jointly). Company also filed 15,652 common shares (par $25) to be underwritten by Dean Witter & Co. **Proceeds**—Will be used to retire $900,000 bank loans, to reimburse the treasury for expenditures on construction and for other corporate purposes.

Callaway Mills, LaGrange, Ga.
Aug. 28 filed 123,306 shares (no par) common. **Underwriting**—No underwriting. **Offering** — Shares will be offered only to those stockholders who exchanged their holdings of common for preferred in 1945. **Price**—$35 a share. **Proceeds**—For corporate purposes.

Camden (N. J.) Fire Insurance Association
Sept. 19 filed 100,000 shares ($5 par) capital stock. **Underwriter**—Butcher & Sherrerd, Philadelphia. **Offering**—Shares will be offered to stockholders of record Oct. 22 in the ratio of one new share for each four shares held. Rights will expire Nov. 6. Unsubscribed shares will be sold publicly. **Price**—$17 per share to warrant holders. **Proceeds**—To increase capital funds.

• Caneel Bay Corp., New York (10/28)
Oct. 21 (letter of notification) $250,000 5-year 5% registered debentures and 266,100 shares of capital stock (par 10¢). **Underwriting**—None. Securities will be offered publicly as follows: 190 units consisting of one $1,000 debenture and 400 shares of stock at $1,040 per unit and 60 units will be exchanged for tangibles. Of the remaining 166,100 shares of stock 100,000 are subject to option to John B. Griffith to purchase same on or before Dec. 31, 1947 at 10 cents per share; remaining 66,100 shares subject to option to promoters at 10 cents per share on or before Dec. 31, 1947. Purchase of land located on Island of St. John, Virgin Islands, U. S. A., other property, working capital, etc.

Carolina Power & Light Co., Raleigh, N. C.
Oct. 8 filed 90,935 shares (no par) common. **Underwriting**—To be announced by amendment. **Offering**—Stockholders of record Oct. 29 will be given the right to subscribe on or before Nov. 20 on the basis of one new share for each 10 now held. Unsubscribed shares will be offered publicly through underwriters. Price by amendment. **Proceeds**—For construction program.

• Central Cooperative Wholesale, Superior, Wis.
Oct. 13 filed $750,000 of preferred stock. No underwriting. **Offering**—A portion of the stock will be offered for conversion of outstanding notes, on a dollar for dollar basis, and the balance will be offered to members and patrons eligible to become members. **Price**—From $25 to $25.75 from January to December, depending on the quarter in which the stock is sold. **Proceeds**—For construction of warehouse, expansion of inventories, and property additions. **Business**—Cooperative for buying, processing, packaging, selling and distribution of commodities to its members, which are retail outlets. Chief commodities are feeds, coffee and bakery goods.

• Central Helicopters, Inc., Seattle, Wash.
Oct. 9 (letter of notification) $140,000 of 5% notes, due 1957, and 3,800 shares ($1 par) common. Notes to be sold at face amount and the common at $1 a share. **Underwriter**—H. P. Pratt and Co., Seattle, Wash. For reduction of current liabilities and purchase of additional helicopters.

Cleveland (Ohio) Electric Illuminating Co.
Sept. 26 filed 254,989 shares (no par) preferred, series of 1947. **Underwriter** — Dillon, Read & Co., New York. **Offering**—To be offered share for share plus a cash adjustment for outstanding $4.50 preferred. Unexchanged shares of new preferred will be sold publicly. Price by amendment. **Proceeds**—To retire unexchanged shares of old preferred. Offering indefinitely postponed.

• Coffee-Cola Co., Washington, D. C.
Oct. 17 (letter of notification) 25,000 shares ($10 par) common. **Price**—$10 a share. No underwriting. For working capital.

Colorado Central Power Co., Golden, Colo.
Sept. 8 (letter of notification) 9,872 shares ($10 par) common. **Price**—$30 a share. Company will sell the stock through investment bankers or security dealers and pay a commission of $1.25 a share. Proceeds will be used to repay a $100,000 loan and to reimburse its treasury cash.

• Consolidated Edison Co. of N. Y., Inc. (11/18)
Oct. 17 filed $30,000,000 25-year 1st & refunding mtge. bonds, Series D. Underwriting to be determined by competitive bidding. **Probable Bidders**—Morgan Stanley & Co., The First Boston Corp., Halsey, Stuart & Co. Inc. **Proceeds**—To redeem $30,000,000 of 3½% 20-year debentures due 1958, at 102. Opening of bids tentatively scheduled for Nov. 18.

• Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities. **Business**—Production, processing and wholesaling of various products for ultimate benefit of farmers.

• Crader Oil Co., Inc., Fort Worth, Texas
Oct. 16 (letter of notification) 20,000 shares of common. **Price**—$1 a share. The stock will be sold through the president of the company. To purchase oil and gas leases.

• Davis Mfg., Inc., Wichita, Kansas
Oct. 15 (letter of notification) 9,000 shares of common. **Price**—$11 a share. Being sold on behalf of Charles J. Davis, President of the company. **Underwriter**—Dempsey-Tegeler & Co., St. Louis, Mo.

• Detroit (Mich.) Imperial Co.
Oct. 13 (letter of notification) 12,000 shares ($10 par) common. **Price**—$10 a share. No underwriting. To liquidate indebtedness.

Dodge Manufacturing Corp., Chicago
Sept. 30 filed $1,500,000 15-year sinking fund debentures. **Underwriter**—Central Republic Co.; A. C. Allyn & Co., and H. M. Byllesby & Co., all of Chicago. **Price**—By amendment. **Proceeds**—To redeem outstanding debentures, repay bank loans and to increase general funds. Offering indefinitely postponed.

• Dogpaw Gold Mines Ltd., Toronto
Oct. 22 filed 1,000,000 shares ($1 par) capital stock. **Underwriter**—Name to be filed by amendment. Price by amendment. **Proceeds**—To develop mining properties in Flint Lake locality of Ontario. **Business**—Mining business.

• Doman-Frasier Helicopters, Inc., N. Y. (10/27)
Oct. 16 (letter of notification) 6,750 shares ($1 par) common and 1,750 common stock purchase warrants. **Price**—5,000 common shares at $1.50 each and one cent a warrant. The balance of common shares are reserved for issuance upon exercise of the warrants. **Underwriter**—John Nickerson & Co., Inc., New York. For operating expenses.

• El Dorado Gold Mines, Ltd., Winnemucca, Nev.
Oct. 14 (letter of notification) 200,000 shares ($1 par) common. **Price**—75 cents a share. No underwriting. For purchase of properties, additional equipment and for working capital.

Electric Steam Sterlizing Co., Inc., N. Y.
Sept. 22 (letter of notification) 65,000 shares of common stock (par 10¢). **Price**—65 cents per share. **Underwriter**—Reich & Co., New York. Purchase of inventory, etc.

Empire Projector Corp., New York (10/27-31)
Aug. 21 (letter of notification) 80,000 shares ($1 par) common on behalf of the company, and 15,000 shares ($1 par) common on behalf of officers and stockholders. The 80,000 shares will be sold at $3 a share. The 15,000 shares will be sold to L. D. Sherman & Co., New York, the principal underwriter, at 60 cents a share. The underwriting discount for 80,000 shares will be 50 cents a share. The company will use its proceeds to increase working capital.

Ero Manufacturing Co., Chicago
Sept. 30 filed 150,000 shares ($1 par) common. **Underwriter**—Straus & Blosser, Chicago. **Price**—$7 a share. The underwriting commission will be $1 a share. **Proceeds**—Shares are being sold by stockholders who will receive proceeds.

Federal Electric Products Co.
Feb. 26, filed 150,000 shares ($1 par) common class A. **Underwriter**—E. F. Gillespie & Co., Inc., New York. **Price**—$7.25 a share. The registration states principal stockholder has granted the underwriters an option to purchase 45,000 shares of class B ($1 par) common at $7.25 a share, exercisable for a period of three years. **Proceeds**—Proceeds of approximately $870,000, together with $755,000 of other bonds, will be used to repay the balance of $34,000 of a property mortgage, to pay off loans in the amount of $1,295,000 to Bankers Commercial Corp., New York, and for additional working capital.

Federal Services Finance Corp., Washington
Sept. 24 (letter of notification) 2,870 shares of 6% cumulative preferred stock. **Price**—$104.50 a share. **Underwriter**—Mackall and Coe, Washington, D. C. For operating capital.

Florida Rami Products, Inc. (11/7-14)
Aug. 1 (letter of notification) 100,000 shares ($1 par) class A common. **Price**—$3 a share. **Underwriter**—Batkin, Jacobs & Co., New York. To purchase new machines and equipment, to pay off some current liabilities and to add to working capital.

Forest Lawn Co., Glendale, Calif.
Oct. 7 (letter of notification) $295,000 3% debenture, series B, due 1967. To be sold to Forest Lawn Memorial-Park Association, Inc., at par, plus accrued interest. For capital improvements or investments.

Frailey Industries, Inc., New York (10/27-31)
Sept. 26 (letter of notification) 34,500 shares of class A stock (par $1). **Price**—$5 per share. **Underwriter**—Edward R. Parker Co., Inc., New York. Expand sales of products, etc.

• Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$7 a share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds. **Business** — Manufacture of textile products for automotive and other industries.

NEW ISSUE CALENDAR

October 24, 1947

Air Products, Inc.----------Common
Rochester Glass Corp.----------Common

October 25, 1947

Gold Ridge Inc.----------Capital Stock

October 27, 1947

Doman-Frasier Helicopters Inc.----------Common
Empire Projector Corp.----------Common
Franey Industries Inc.----------Class A Stock
North American Research Laboratories----------Common and Pref.
Pottstown Small Loan Co.----------Debs. and Common

October 28, 1947

Caneel Bay Corp.----------Debs. and Capital Stock
Jacksonville Terminal Co., Noon (EST)----------Bonds
Providence Washington Ins. Co.----------Capital Stock
Robertshaw-Fulton Controls Co.----------Pref. & Common

October 29, 1947

Idaho Power Co.----------Pref. and Common
Kendall Co.----------Common
Minnesota Min. & Mfg. Co.----------Debs. and Preferred
Silver Creek Precision Corp.----------Common

October 30, 1947

Lock Nut Corp. of America----------Preferred

November 3, 1947

Associated Telephone Co. Ltd.----------Bonds and Pref.
Publix Shirt Corp.----------Common
Public Serv. Co. of Indiana Inc., Noon (CST)----------Bonds
Wisconsin Public Service Corp.----------Bonds

November 6, 1947

Gen. American Transportation Co.----------Preferred
Standard Oil Co. (Ohio)----------Common

November 7, 1947

Florida Rami Products Inc.----------Common
Massachusetts Bonding & Ins. Co.----------Capital Stock

November 10, 1947

American Cladmetals Co.----------Common
Heyden Chemical Co.----------Debentures

November 17, 1947

Liberty Loan Corp.----------Pref. and Common

November 18, 1947

Consolidated Edison Co. of N. Y.----------Bonds

● **General American Transportation Corp. (11/6)**
Oct. 17 filed 150,000 shares of Series A preferred. **Underwriter**—Kuhn, Loeb & Co., New York. **Price**—$105 a share. **Proceeds**—To pay off indebtedness and for working capital. **Business**—Operation of railroad freight cars.

Gerity-Michigan Corp., Adrian, Mich.
Sept. 29 filed 40,049 shares ($1 par) common. **Underwriter**—Name to be filed by amendment. Price by amendment. **Proceeds** — The shares are being sold for the account of James Gerity, Jr., company president.

● **Gold Ridge, Inc., New York (10/25)**
Oct. 20 (letter of notification) 45,000 shares of capital stock (par $1). **Price**—$1 per share. **Underwriter**—Stein Bros. & Boyce, Baltimore. Proceeds for working capital.

● **Goldfield Great Bend, Ltd., Reno, Nev.**
Oct. 15 (letter of notification) 110,000 shares (1¢ par) capital stock. The shares will be issued in return for certain mine properties.

● **Graham-Paige Motors Corp., New York**
Oct. 17 filed 233,320 shares ($1 par) common. **Underwriter**—Allen & Co., New York. Price by amendment. **Proceeds**—To repay bank loans and for working capital. **Business**—Manufacturers of farm implements.

Great Eastern Mutual Life Ins. Co., Denver
Sept. 2 (letter of notification) 45,250 shares ($1 par) capital stock. **Price**—$2 a share. To be sold through officers of the company. Of the total 13,250 shares will be sold for cash and 32,000 will be issued in exchange for 32,000 shares of capital stock of Western Agency Co. in order to acquire all of the latter's assets.

Great Western Biscuit Co., Los Angeles
Aug. 11 filed 249,972 shares ($1 par) capital stock. Underwriter — Fewel & Co., Los Angeles. Offering — Shares will be offered to stockholders at $2 a share in the ratio of one new share for each two now held. Unsubscribed shares will be offered publicly at $2 a share. The underwriters will receive a commission of 25 cents a share. Proceeds—For business expansion and to reduce short term indebtedness.

Greenback (Tenn.) Industries, Inc.
Sept. 17 (letter of notification) 25,000 shares ($10 par) preferred and 50,000 shares (10¢ par) common. **Price**—$10 per unit, consisting of one share of preferred and two shares of common. **Underwriter**—L. L. Bailey & Co., Knoxville, Tenn. To pay for equipment and buildings.

Hawaiian-Philippine Co., Manila, P. I.
Sept. 24 filed 500,000 shares 7% cumulative preferred, par 10 Philippines pesos per share (currency basis one peso equivalent to 50 cents). **Underwriting**—No underwriting. **Offering**—For subscription by common stockholders on the basis of one share for each 1¼ shares owned. **Price**—$5 a share. **Proceeds**—For rehabilitation program.

● **Heyden Chemical Corp. (11/10)**
Oct. 22 filed $6,000,000 15-year debentures. **Underwriter**—A. G. Becker & Co., Inc. Price by amendment. **Proceeds**—To pay off a bank loan and for expansion and additional working capital.

Hickok Manufacturing Co., Inc., Rochester, New York
Sept. 19 filed 200,000 shares ($1 par) common. **Underwriter**—E. H. Rollins & Sons, Inc., New York. **Price**—By amendment. **Proceeds**—The shares are being sold by 36 stockholders who will receive proceeds. Offering postponed indefinitely.

Household Finance Corp., Chicago
Oct. 9 filed 222,485 shares (no par) common (stated value $10 a share). No underwriting. **Offering**—Stockholders of record Oct. 29 will be given the right to subscribe to the new shares at $17 per share in ratio of one new share for each 10 held. Rights expire Nov. 17. **Proceeds**—Added to working capital.

Howe Plan Fund, Inc., Rochester, N. Y.
Oct. 3 filed 500,000 shares ($1 par) capital stock. **Underwriter**—George D. B. Bonbright and Co., Rochester. Price based on market prices. **Proceeds** — For investment.

● **Hy-Klas Food Products, Inc., St. Joseph, Mo.**
Oct. 17 (letter of notification) $200,000 of 6% certificates of debentures, 10-year maturity, and 7,500 shares of $10 par common. The debentures will be sold at face amount and the common at $10 a share. No underwriting. To build bakery building.

Idaho Power Co., Boise, Idaho (10/29)
Oct. 7 filed 35,000 shares ($100 par) 4% preferred and 100,000 shares ($20 par) common. **Underwriters**—Blyth & Co., Inc., and Lazard Freres & Co., both of New York, and Wegener & Daly, Inc., Boise, Idaho. Price by amendment. **Proceeds**—To repay short-term bank loans and to finance additions and improvements to its electric system. **Business**—Public utility.

Illinois-Rockford Corp., Chicago
July 24 filed 120,000 shares ($1 par) common. Underwriters—Brailsford & Co., and Straus & Blosser, Chicago. Price—$9.25 a share. Proceeds—The shares are being sold by four stockholders and represent part of the stock the sellers will receive in exchange for their holdings of four furniture companies to be merged with the registrant. The merging companies are Toccoa Manufacturing Co. and Stickley Brothers, Inc., both Illinois corporations, and the Luce Corp. and Stickley Bros. Institutional Furniture Co., both Michigan corporations.

Indianapolis Power & Light Co.
Oct. 9 filed 50,000 shares ($100 par) cumulative preferred and 214,451 shares (no par) common. **Underwriters**—To be supplied by amendment. For preferred (possibly Lehman Brothers). Common by competitive bidding. Probable bidders: W. C. Langley & Co., Shields & Co., White, Weld & Co. (jointly); Otis & Co.; Blyth & Co., Inc.; Lehman Brothers. **Offering**—The preferred will be offered publicly while the common will be offered to common stockholders of record about Nov. 5 on the basis of one new share for each four held. Rights expire Nov. 19. Price by amendment. **Proceeds**—For new construction purposes. **Business**—Public utility.

Inglewood Gasoline Co., Beverly Hills
July 7 (letter of notification) 100,414.8 shares ($1 par) capital stock. Price—$1 a share. To be offered to stockholders. Unsubscribed shares to be offered publicly through Bennett & Co., Hollywood. To purchase equipment, liquidate indebtedness, and for working capital. An amended application may be filed in near future.

Interstate Power Co., Dubuque, Iowa
May 13 filed $19,400,000 of first mortgage bonds, due 1977, and 2,132,223 shares ($3.50 par) capital stock. Proceeds—For debt retirement, finance new construction and for working capital. Bonds awarded Sept. 24 to Halsey, Stuart & Co. Inc. on bid of 101.90 for a 3½% coupon rate. Stock awarded Sept. 24 on bid of $4.05 per share to Lehman Brothers, Goldman, Sachs & Co. and Wertheim & Co. The SEC on Sept. 25 rejected the bid for the stock. The SEC in its decision declared the price offered for the stock "would not effectuate a reorganization plan which would be fair and equitable to the persons effected thereby." The SEC's action also held up the sale of the bonds.

● **Jarnel Lumber Co., Point Pleasant, W. Va.**
Oct. 16 (letter of notification) 124,000 shares of common. **Price**—60 cents a share. **Underwriter**—E. W. Hoy, New York. To build plant and for working capital.

Jersey Shore (Pa.) Gas & Heating Co.
Sept. 10 (letter of notification) $25,000 first mortgage sinking fund debentures. Price, par. **Underwriter**—Bioren & Co., Philadelphia. To retire present loan of $20,500 and to add to working capital.

Johnson Automatics, Inc., Boston
Oct. 10 (letter of notification) 95,000 shares of common. To be sold at market. **Underwriter**—George F. Breen, New York. For additional working capital. Issue will be placed privately.

Kendall Co., Walpole, Mass. (10/29-30)
Oct. 9 filed 50,000 shares (no par) common. **Underwriters**—The First Boston Corp., and Goldman, Sachs & Co., New York. Price by amendment. **Proceeds**—The shares are being sold by H. P. Kendall, President of the company.

● **Keystone Custodian Funds, Inc., Boston**
Oct. 22 filed five registration statements for the following securities: series K-1, 500,000 shares of $1 par; series B-4, 100,000 shares of $1 par; series B-3, 100,000 shares of $1 par; series S-1, 25,000 shares of $1 par; and series S-4, 500,000 shares of $1 par. **Underwriter**—The Keystone Co. of Boston. **Price**—Based on market price. **Proceeds**—For investment. **Business**—Investment business.

Koch Chemical Co., Winona, Minn.
July 22 (letter of notification) 60,000 shares ($1 par) common. Price—$5 a share. Underwriter—H. P. Carver Corp., Boston. To retire debt and for working capital.

● **Lakeland Shoes, Inc., Rib Lake, Wis.**
Oct. 16 (letter of notification) 7,500 shares ($10 par) common. **Price**—$10 a share. No underwriting. For real estate, personal property and working capital.

Legend Gold Mines, Ltd., Toronto, Canada
June 27 filed 300,000 shares ($1 par) common treasury stock. Underwriting — To be supplied by amendment. Price—50 cents a share. Proceeds—To develop mining properties. Business—Mining.

Liberty Loan Corp., Chicago (11/17)
Sept. 25 filed 100,000 shares ($10 par) 75-cent cumulative convertible preferred, and 100,000 shares of Class A common, reserved for conversion of the preferred. **Underwriter**—Sills, Minton & Co. **Price**—$15 a share. **Proceeds**—To reimburse treasury for cost of redeeming 50-cent preferred.

Lock Nut Corp. of America (10/30)
Oct. 6 (letter of notification) 24,000 shares of 5% cumulative convertible preferred stock (par $12.50). **Underwriter**—Ray T. Haas, Chicago. **Price**—$12.50 per share. General corporate purposes.

● **Lunkenheimer Co., Cincinnati**
Oct. 13 (letter of notification) 3,700 shares (no par) common on behalf of Helen P. Lunken, Cincinnati. To be sold at market. **Underwriter**—Field Richards & Co., Cincinnati, and Neergaard, Miller & Co., New York.

Lyon Metal Products, Inc., Aurora, Ill.
Oct. 10 filed 20,000 shares ($50 par) 5% cumulative preferred. **Underwriter**—Kebbon, McCormick & Co., Chicago. **Offering**—15,764 shares will be offered to holders of its $100 par 6% cumulative preferred on an exchange basis of two shares of new preferred for each share of old preferred. The balance of the shares will be offered publicly. Price by amendment. **Proceeds** — To retire unexchanged old preferred and for working capital.

● **Macy (R. H.) & Co., Inc., New York**
Oct. 22 filed $20,000,000 25-year 2⅞% sinking fund debentures, due Nov. 1, 1972. **Underwriters**—Lehman Brothers and Goldman, Sachs & Co., New York. Price by amendment. **Proceeds**—To pay off $7,400,000 of notes and for expansion and improvement program estimated to cost $25,000,000 during next five years.

Manhattan Coil Corp., Atlanta, Ga.
May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. Underwriter—Kirchofer & Arnold, Inc., Raleigh, N. C. Price—The debentures at 102.507, while the preferred shares will be offered at par and the common shares at $4 each. Proceeds—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.

Massachusetts Bonding and Insurance Co., Boston (11/7)
Sept. 19 filed 100,000 shares ($5 par) capital stock. **Underwriter**—Geyer & Co., New York. **Offering**—Offered for subscription to stockholders of record Oct. 7 at $26 per share on the basis of one new share for each four held. Rights expire Nov. 6 and unsubscribed shares will be sold publicly. **Proceeds**—For expansion of business.

Merritt Chemical Co., Inc., Greensboro, N. C.
Oct. 1 (letter of notification) 60,830 shares ($1 par) common of which 19,537 shares will be offered to stockholders at $2.50 a share and 41,293 shares will be offered publicly at $3 a share. **Underwriter**—Main Line Investment Co., Merion Station, Pa. For expansion of business.

Minnesota Min. & Manufacturing Co. (10/29)
Oct. 6 filed $10,000,000 20-year sinking fund debentures and 100,000 shares (no par) cumulative preferred. **Underwriter**—Goldman, Sachs & Co., New York. **Price**—By amendment. **Proceeds**—For general corporate purposes including construction of new facilities. **Business**—Manufacturers of scotch tape and other adhesives.

Munising Wood Products Co., Inc., Chicago
Sept. 29 filed 50,000 shares ($10 par) 5% cumulative convertible preferred and 100,000 shares ($1 par) common. **Underwriters** — Straus & Blosser and Brailsford & Co., both of Chicago. **Price** — $10 a preferred share and $6.12½ a common share. **Proceeds** — The securities are being sold by 12 stockholders who will receive proceeds.

Nashville (Tenn.) Corp.
Oct. 7 filed 820,834 shares ($1 par) common. **Underwriter**—Avco Manufacturing Corp., parent of Consolidated Vultee Aircraft Corp., which, in turn, is parent of the registrant, has agreed to purchase shares not subscribed for otherwise. **Offering**—The shares will be offered to Consolidated's common stockholders on the basis of two shares of Nashville common in return for one share of Consolidated common and $18 cash. The exchange of common is part of a program whereby Consolidated will transfer the assets of its Nashville division to the registrant. **Proceeds**—For working capital.

● **North American Research Laboratories, Inc., North Plainfield, N. J. (10/27)**
Oct. 20 (letter of notification) 2,800 shares of common stock (par $1) and 700 shares of 6% cumulative (non-voting) preferred. **Price**—$100 per unit consisting of one preferred and two common shares. Balance of common to be exchanged for present common. **Underwriting**—None. For construction of equipment, purchase of materials, etc.

(Continued on page 46)

(Continued from page 45)

● **Oliver Pump Co., Pomona, Calif.**
Oct. 14 (letter of notification) 30,000 shares of common. **Price**—$10 a share. No underwriting. To build and equip factory to produce deep well turbine pumps and pumping equipment for general trade.

● **Orange Concentrates Associates, Inc., Boston**
Oct. 21 filed 108,000 shares ($1 par) common. No underwriting. **Offering**—The shares are owned by National Research Corp., parent of the registrant, and will be offered for purchase by its stockholders. **Price**—$7.75 a share. **Proceeds**—National Research will receive proceeds. **Business** — Orange was organized last June by National Research to acquire and offer to national research stockholders an indirect participation in the Vacuum Foods Corp., whose notes and common stock are held by National Research.

Portland (Ore.) General Electric Co.
Oct. 13 filed $6,000,000 of first mortgage bonds, due 1977. **Underwriting**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc., The First Boston Corp. **Proceeds**—For property additions.

Pottstown (Pa.) Small Loan Co., Inc. (10/27)
Oct. 9 (letter of notification) 500 shares ($50 par) common and $150,000 of 5% debenture bonds, due 1967. The common stock will be offered directly to the public at $50 a share while the debentures will be offered at face amount through the underwriting firm of Suplee, Yeatman & Co., Inc., Philadelphia. For reduction of bank loans and for working capital.

Providence (R. I.) Washington Ins. Co. (10/28)
Sept. 25 filed 100,000 shares ($10 par) capital stock. **Underwriter**—First Boston Corp., New York. **Offering**—Offered for subscription to stockholders of record Oct. 16 on the basis of one new share for each three shares held at $28 per share. Rights expire (noon) Oct. 28. **Proceeds**—To increase its capital and surplus.

Publix Shirt Corp., New York (11/3-7)
Oct. 3 filed 140,000 shares ($1 par) common. **Underwriter**—Reynolds & Co., New York. Price by amendment. **Proceeds** — The shares are being sold by three stockholders who will receive proceeds.

Public Service Co. of Indiana, Inc. (11/3)
Oct. 1 filed $15,000,000 first mortgage bonds, series G, due 1977. **Underwriters**—Names to be supplied by competitive bidding. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Glore, Forgan & Co.; Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., and Harriman Ripley & Co. (jointly). **Proceeds**—About $4,000,000 will be used to reimburse the treasury for expenditures already made and the remainder will go for additional construction requirements. **Bids**—Anticipated bids will be received at Room 2000, 11 South La Salle Street., Chicago, at noon (CST) Nov. 3.

● **Ramie Mills of Florida, Inc., Boston**
Oct. 15 (letter of notification) 15,000 shares ($1 par) common. **Price**—$3 a share. No underwriting. For additional working capital.

Robertshaw-Fulton Controls Co. (10/28)
Sept 26 filed 120,000 shs. of 4¾% ($25 par) cumulative preferred and 550,000 shares ($1 par) common; also 300,000 shares of common for conversion of the preferred. **Underwriter**—All but 50,000 shares of the common will be underwritten by Reynolds & Co., New York. The 50,000 shares will be offered to employees and officers of the company. **Offering**—Company is offering the preferred and 50,000 shares of the common and Reynolds Metals Co., Richmond, Va., parent of the registrant, is offering the remaining 500,000 shares of common. Price by amendment. **Proceeds**—To pay obligations.

● **Rochester (Pa.) Glass Corp. (10/24)**
Oct. 17 (letter of notification) 1,000 shares ($100 par) common. **Price** — $100 a share. **Underwriter** — Kay, Richards & Co., Pittsburgh, Pa. To pay off debt and purchase equipment.

● **Rockland Trust Co., Rockland, Mass.**
Oct. 16 (letter of notification) 500 shares ($100 par) common. **Price**—$150 a share. No underwriting. To retire preferred stock.

Seattle (Wash.) Gas Co.
Sept. 4 (letter of notification) $300,000 ($50 par) preferred. **Price**—$50 a share. **Underwriter**—Shea & Co., Boston; and Smith, Landeryou & Co., Omaha, Neb. For payment of loan and current obligations.

● **Silver Buckle Mining Co., Wallace, Idaho**
Oct. 13 (letter of notification) 1,500,000 shares of (10c par) stock. **Price**—20 cents a share. **Underwriters**—F. E. Scott, Pennaluna & Co., J. E. Scott and Morris George, all of Wallace, Idaho, and John Erickson and Harold Gribble, both of Mullan, Idaho. For mine development.

● **Silver Creek (N. Y.) Precision Corp. (10/29-31)**
Oct. 16 (letter of notification) 149,850 shares (40¢ par) common and 29,985 stock purchase warrants. **Price**—$2 a common share and one cent a warrant. **Underwriter**—First Colony Corp., New York. For working capital.

● **South Bend (Ind.) Bait Co.**
Oct. 13 (letter of notification) $88,784 of ($20 par) common. **Price**—$34.56 a share. No underwriting. For additional working capital.

Southeastern Development Corp., Jacksonville, Fla.
July 29 (letter of notification) 8,000 units consisting of one share ($10 par) 6% cumulative preferred and one share ($1 par) common. **Price**—$12.50 per unit. **Underwriter**—Southeastern Securities Corp., Jacksonville. For working capital.

● **Southern New England Telephone Co.**
Oct. 20 filed 100,000 shares of capital stock (par $100). **Underwriting**—None. **Offering**—To be offered for subscription to stockholders of record Oct. 30, in ratio of one new share for each five shares held. **Price**—$100 per share. **Proceeds**—To repay advances from American Telephone & Telegraph Co. and finance extensive postwar construction program.

Southwestern Investment Co.
Oct. 8 filed 15,000 shares of 5% cumulative sinking fund preferred (par $20) and 21,499 common shares (no par). **Underwriters**—Preferred: The First Trust Co. of Lincoln, Neb.; common: Schneider, Bernet & Hickman. **Purpose**—To increase working capital. **Offering**—To be offered for subscription to stockholders, the preferred at par and the common at $15 per share.

Spartan Tool & Service Co., Houston, Texas
Sept. 26 filed $1,200,000 of 4% subordinated debentures, due 1955, and 120,000 shares ($1 par) common. Above securities to be offered only in combination with certain securities of Well Service Securities Co., in units of $1,000 of subordinated debentures and 100 shares of common of the company and $92 principal amount of 4% 7½-year notes due 1955 and one share of common (par $1) of Well Service Securities Co. at $1,193 per unit. **Underwriting**—In addition, Well Service Securities Co., an affiliate, will sell 110,000 shares of common of Spartan to Spartan's officers and employees at par. **Proceeds**—To provide working capital.

Standard Oil Co. of Ohio (11/6)
Oct. 2 filed 584,320 shares ($10 par) common. **Underwriter**—F. S. Moseley & Co. **Offering**—Shares initially are offered for subscription to common stockholders of record Oct. 21. Rights will expire 3 p.m. Nov. 5. Unsubscribed shares will be offered publicly through underwriters at $23¾ per share. **Proceeds**—For working capital to meet expanding operations.

● **Swansea Mines, Inc., Helena, Mont.**
Oct. 14 (letter of notification) 500,000 shares of common and $50,000 in debenture warrants to accompany the stock. **Price** — 10 cents a share. To be sold through directors or licensed salesmen. To purchase mining property and for working capital.

Title Insurance Plants Co. of Montana, Union Block, Missoula, Mont.
Oct. 6 (letter of notification) 2,400 shares each of no par common and no par preferred. **Price**—$125 a preferred share. The company will issue one share of common as bonus with each share of preferred sold. To be sold through officers of the company. For operation of business.

● **United Fish & Cold Storage Co., Juneau, Alaska**
Oct. 13 (letter of notification) 150,000 shares ($1 par) preferred stock. **Price**—$1 a share. With every 100 shares of preferred stock the purchaser receives 25 shares of common as a bonus. To be sold through officers of the company. Acquisition of a ship and installation of cold storage equipment for the processing of fish in Alaska.

● **U. S. Thermo Control Co., Minneap.**
Oct. 14 (letter of notification) 120,000 shares ($1 par) common. **Price**—$2.50 a share. **Underwriter**—George F. Breen, New York. For additional working capital.

● **W. A. & A. Motors, Inc., Baltimore, Md.**
Oct. 8 (letter of notification) 29,850 shares ($10 par) common. **Price**—$10 a share. No underwriting. To erect garage building.

● **Well Service Securities Co., Houston, Texas**
Oct. 17 filed $110,400 of 4% 7½-year notes and 1,200 shares ($1 par) common. No underwriting. **Price**—The notes will be sold at face amount and the common at $1 a share. The securities are to be sold in combination with securities of the Spartan Tool & Service Co. (which see). **Proceeds**—The company will use proceeds from the notes for purchase of 110,000 shares of Spartan common and for other expenses. The common is being sold by C. P. Parsons, President of the Company. **Business**—The company is not yet engaged in business and although its charter authorizes it to sell securities and real and personal property, it actually has been organized to acquire the common stock of Spartan Tool & Service Co. for resale to officers and employees of Spartan, the registration said.

● **West Disinfecting Co., Long Island City, N. Y.**
Oct. 17 filed 12,500 shares (no par) $5 cumulative preferred and 75,000 shares (50c par) common. **Underwriter**—Coffin & Burr, Boston. Price by amendment. **Proceeds**—Of the total, the company is selling 2,500 shares of preferred and 25,000 shares of common. The balance of securities are being sold by 14 stockholders. The company will use its proceeds to repay bank loans and for working capital. **Business**—Manufacture of sanitation products.

● **Wickes Corp., Saginaw, Mich.**
Oct. 20 filed 770,000 shares ($5 par) common. No underwriting. **Offering**—To be exchanged for stock of U. S. Graphite Corp., Wickes Brothers and Wickes Boiler Co. in connection with a plan to merge the three companies into the registrant. **Business**—Graphite and boiler business.

Wisconsin Investment Co., Milwaukee
Sept. 29 filed 370,000 shares of common. **Underwriter**—Loewi & Co., Milwaukee. **Offering**—Shares initially will be offered to stockholders and unsubscribed shares will be offered publicly through underwriter. **Price**—Based on market prices. **Proceeds**—For investment.

Wisconsin Public Service Corp. (11/3)
Sept. 30 filed $4,000,000 30-year first mortgage bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Shields & Co.; Glore, Forgan & Co., and Harriman Ripley & Co. (jointly); W. C. Langley & Co.; The First Boston Corp. **Proceeds**—To repay short-term bank loans. **Bids**—Bids for purchase of the bonds will be received (tentatively) at Room 1100, 231 South La Salle Street, Chicago, up to Nov. 3.

Prospective Offerings

● **Central Maine Power Co.**
Oct. 21 to complete the financing of its 1947 construction, company asked the SEC for permission to sell $4,000,000 first and general mortgage bonds, Series P, and $3,000,000 ($10 par) common stock at competitive bidding. The common stock would be offered initially to holders of the company's outstanding 6% preferred and common stock. Central Maine's parent, New England Public Service Company, which owns 77.8% of the company's common, has advised the subsidiary that it would waive its preemptive right to subscribe to the additional common stock. **Probable Bidders**—For bonds: Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.

● **Firemen's Insurance Co. of Newark, N. J.**
Nov. 25 stockholders will vote on authorizing 100,000 shares cumulative preferred stock (par $50), of which from 60,000 to 75,000 shares will be placed privately through Blyth & Co., Inc. Company proposes to issue 120,462 additional common shares, increasing outstanding to 2,000,000 shares. A registration covering the 120,462 shares will be filed with the SEC and the shares will be offered for subscription to stockholders, with Blyth & Co., Inc. as underwriter.

● **Food Machinery Corp.**
Dec. 22 common stockholders will vote on approving an increase in the authorized cumulative preferred ($100 par) stock to 100,000 shares from 70,000 shares and the authorized ($10 par) common to 3,000,000 shares from 1,500,000. Subject to approval of the increase in capital, the directors have authorized and declared a distribution to common stockholders of record Dec. 22 of 666,810 shares of common on basis of one additional share for each share then outstanding. The directors state that they do not currently intend to issue or sell any further shares of either preferred or common after this distribution.

● **Household Finance Corp.**
Oct. 16 reported company plans sale of about $5,000,000 preferred stock, when common stock offering is completed, with Lee Higginson Corp. as underwriter.

● **International Harvester Co.**
Oct. 22 reported company contemplating new financing to augment its working capital position. No indication as yet of the form which the financing will take. **Probable Underwriters** — Glore, Forgan & Co. and Harris, Hall & Co. (Inc.)

Jacksonville Terminal Co. (10/28)
Company will receive bids up to noon (EST) Oct. 28 for the purchase of $4,000,000 first mortgage bonds, series A. Bids will be received by John B. Hyde, Vice-President, Room 916, 71 Broadway, New York City. Probable bidders: The First Boston Corp.; Blyth & Co., Inc.; Smith, Barney & Co.; Shields & Co., and C. J. Devine & Co., Inc. (jointly).

● **Northeast Airlines, Inc.**
Nov. 5 stockholders will vote on authorizing an issue of 65,000 shares (no par) preferred stock. If approved, the proceeds of the new issue may be applied in part to the payment of about $900,000 of notes held by the Atlas Corp. Atlas also owns 100,000 shares of stock in Northeast Airlines. Probable underwriter, Lee Higginson Corp.

● **Wisconsin Central Airlines**
Oct. 20 company expects to file with SEC in near future an issue of 175,000 shares of common stock (par $1). Loewi & Co., Milwaukee will be principal underwriter.

● **Wisconsin Power & Light Co.**
Oct. 15 reported company contemplates sale of $3,000,000 bonds for expansion purposes. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Harriman Ripley & Co. (jointly); W. C. Langley & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp.; Shields & Co.

Definition of American Economy

(Continued from page 12)

businessmen, confidence in the prospects for continued profitable operations.

While we are seeking measures to minimize the instability of our economic system and thus correct its weaknesses, we must constantly keep in mind that its strength lies in its natural lusty vitality. That we must not lose. Otherwise, we may end up with a stabilized poverty so characteristic of the tired, regimented, old-world economies.

Now comes the $64 question. What kind of a program will yield us dynamic stability? Perhaps you agree that the complexities of the problem are such that (1) it will take the collective wisdom of all of us — government, business, labor, agriculture and the educators—to help us work our way toward our goal, and (2) that there is no money magic, no one formula, no one cure for the boom-bust cycle. Nevertheless, if we fail to check a climactic boom, or if we have a disastrous depression, it will not be because of an act of God or a convulsion of nature. It will be because of the acts of men and women—American men and women, American leaders—you, and others like you. Looking backward, we can see that all past depressions were caused by things men did (things which they could have refrained from doing) and by things they failed to do (which they could have done). This being so, if men act sensibly in the future than they have in the past, fluctuations in the business cycle can be moderated. There is no excuse for either violent booms or busts. By adopting appropriate measures, the drop between the peaks and valleys can, I believe, be held to fluctuations of 20%, or perhaps 15%. We can live with that; we cannot live with a crash such as that which took place between 1929 and 1932, when business volume dropped more than 50%.

A Program

To achieve this goal of reducing the range in fluctuations from 50% to 15%, we must have action on many fronts. For example, business can and should do these things to help make our economy more dynamic and more stable.

First: Promote new products and services.

Second: Encourage the growth and development of employees. It is people who make a business. Show me a business whose people are growing, and I will show you a business that is making a true contribution toward a dynamic America.

Third: Operate profitably. Only a profitable business can offer security to its employees.

Fourth: Regularize employment to the greatest extent possible.

Fifth: Exercise scientific control of sales expenditures. In the past, American concerns have kept their sales and advertising budgets high when business was flourishing and easy to get. When business was slow and sales tough to get, sales and advertising were pared to a minimum. This is neither good business nor good sense. If we are to have a stabilized market demand, selling pressures should be maintained—perhaps increased, at the first sign of a decline in business.

Now what can government do? Among the more important areas in which government should take action are the following:

First: We need a complete recast of our tax system. The system could contribute toward dynamic stability if the pressures it exerted tended to stabilize spending and to encourage investing in risk enterprises. As presently constituted, it works in the exactly opposite direction. It tends to promote fluctuations in spending and to stop the flow of capital into new enterprises.

Second: We should expand the coverage of unemployment compensation insurance — as far as practical to all workers. Unemployment compensation insurance gives to people the confidence in continuity of basic income which is so essential to the achievement of greater stability in our economy.

Third: We need better timing of the construction of public works, which should be expanded when the level of business activity is low.

Fourth: We must so manage our hugh public debt that it potential contribution toward greater stability can be realized. There are also potentialities in the way of governmental activities which might assist in stabilizing the availability of credit. Credit has often been too easy to get when times were good, too hard to get when times were tough.

Fifth: There is need for constant vigilance on the part of government to see that competition is kept lively—that monopolistic practices are outlawed.

It would be presumptuous of me to offer proposals as to the measures which can be applied to promote dynamic stability in the fields of agriculture, labor and education. In each area there are potentialities for significant contributions.

The goal for which all of us should strive seems clear to me. We should attempt within the next 25 years to match the progress which has been made in the last fifty. Why isn't such a goal reasonable? There are more of us, and the tempo of our lives is faster. Why shouldn't we double the standard of living for the average man in the next 25 years? Why shouldn't we come close to achieving the great American dream of creating conditions which will assure every American, regardless of race or creed, the opportunity to realize to the fullest on his capacities and to grow and develop to the limit of his potentialities, materially, intellectually and spiritually?

Our Reporter's Report

Outcome of this week's bidding for $100 million of Pacific Telephone & Telegraph Co.'s 40-year debentures must have removed any lingering doubts that the money market has moved definitely out of the "golden age" so far as corporate borrowers are concerned.

It now appears certain that borrowers of new money will find the bankers decidedly more realistic in their approach when called upon to bid competitively for such issues.

Pacific Telephone's obligations are rated "triple A" and the best bid received for its new issue was 100.3999 for a $3\frac{1}{8}$% interest rate, the highest for any company in the Bell System since 1939. The competing group named the same coupon rate and offered to pay 100.14.

The net interest cost to the company figured out about 3.11% whereas, just a year ago, it sold $75,000,000 of similar debentures as $2\frac{7}{8}$s for a price of 102.6199 an indicated interest cost of 2.77%.

The listed market seemingly was geared for even a bit more liberal yield on the foregoing issue, since several of the recently floated loans stiffened visibly on announcement that the new debentures would be priced at $101\frac{1}{4}$ for reoffering to yield about 3.07%. The issue sold a year ago was priced at $103\frac{1}{4}$ to yield 2.74%.

Preliminary inquiry indicated a smart demand for the new Pacifics with everything pointing to a quick sale and the likelihood that the debentures would command a premium over the offering price.

The undertone of the money market has been firming for some months but it has been in recent weeks that the situation has become marked. This was noted in a tendency of several recent issues to "back up" as institutional investors stood aside.

For a comparison of the near-term situation one needs only single out the New England Telephone & Telegraph Co.'s recent financing operation. With a "double A" rating, as against "triple A" accorded Pacific Telephone, the company sold $40,000,000 of debentures, due in 35 years for a price of 100.8091 with the bankers reoffering the issue at $101\frac{5}{8}$, to yield 2.925%.

True the issue was of five years shorter maturity, but the coupon rate was ⅛ of 1% less and the price received from bankers was 0.4 points higher.

Big Stock Deal Off

Cleveland Electric Illuminating Co., which had virtually completed plans for offering of $25,000,000 of new preferred stock to replace its outstanding senior equity, has decided to postpone the operation.

Banking arrangements for the undertaking, which were to be handled by a large group headed by an eastern firm, but including a number of Cleveland houses, brought bitter protest by a large local firm. Details, however, had the approval of the Ohio Utilities Commission.

Postponement was decided upon, the company explained, "because of current unsettled conditions of the market for high-grade utility preferred stocks."

Big Industrial Issue

The syndicate which manages the projected new financing of International Harvester Co. will be predominantly mid-western in its make-up it became known this week.

The company, some time ago, indicated that it was contemplating steps to augment its working capital position and this week, William R. Odell, Jr., Treasurer, disclosed that conversations with bankers are going on.

Thus far there has been no indication of the form which the financing will take although it is expected that that phase of the matter will be determined in the near future.

Competition Is Keen

Competition is really keen for new issues of smaller dimensions these days. This probably reflects the fact that a good many underwriting houses are in a position to take on such an operation single-handed, whereas in the case of the large issues, grouping of capital is necessary.

At any rate, bidding for Alabama Power Co.'s issue of $10,000,000 of bonds this week brought out a total of six tenders with the top bid, reportedly on an agency basis, being 100.391 for a $3\frac{1}{4}$% coupon.

Metropolitan Edison Co.'s offering of $4,500,000 of new first mortgage bonds elicited no less than eleven bids, with the highest fixing a price of 100.81 for a 3% rate.

Halsey, Stuart & Co. and Associates Offer $100,000,000 Pacific Tel. & Tel. Bonds

Halsey, Stuart & Co. Inc. headed an underwriting group that offered publicly Oct. 22 $100,000,000 of Pacific Telephone & Telegraph Co. 40-year $3\frac{1}{8}$% debentures, due Oct. 1, 1987, at 101.25% and accrued interest. The group won the award of the debentures at competitive sale on a bid of 100.3999.

The company will use net proceeds from the sale to reimburse its treasury, in accordance with orders of the regulatory authorities of California, Oregon and Washington, for expenditures made for extensions, additions and improvements to its telephone plant. Its treasury having been so reimbursed, the company will repay its then outstanding advances from American Telephone & Telegraph Co., parent, to the extent that such net proceeds are sufficient therefor. These advances are obtained in conformity with an established practice of the company, which it expects to continue, of borrowing from its parent as need therefor arises for general corporate purposes including extensions, additions and improvements to its telephone plant and advances to its subsidiary.

Pacific Telephone, which spent $104,000,000 for new construction in 1946, has spent in the first half of 1947 a total of $71,000,000 and expects that such expenditures will continue at a high level during the next few years.

As of June 30, 1947, the company and its subsidiary, Bell Telephone Co. of Nevada had 3,190,462 telephones in service and were furnishing local service in 620 exchange areas. The company serves the States of California, Oregon, Washington and the northern portion of Idaho while its subsidiary serves Nevada. About 34% of the telephones of the company and its subsidiary are located in Los Angeles and vicinity, and about 25% are located in San Francisco and vicinity.

The new debentures will be redeemable by the company at prices ranging from 104.25% to par.

Following the sale, the outstanding capitalization of the company will comprise $250,000,000 in funded debt; 2,787,577 shares of common stock (par $100), and 820,000 shares of preferred stock, 6% cumulative (par $100).

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

President Truman personally has dumped into the ash can the most far-reaching, and at the same time most practical plan ever yet advanced to make it possible to save hundreds of millions in unnecessary Federal expenditures.

* * *

He rejected this idea on grounds which legally are entirely correct. Yet these grounds are highly theoretical.

* * *

This plan was the proposal that members of the staffs of the Congressional Appropriations Committees should sit in on the Budget Bureau's own star chamber sessions. These hearings are held by the bureau "within the family" of the Executive branch. They are held to determine how much of what the President recommends to Congress each year shall be appropriated for each Federal agency and for each function.

* * *

These private hearings would be of great value to the Appropriations Committees in forming an accurate judgment as to the need for numerous money allowances. They also would give Congress a better judgment as to the relative efficiency of each and every agency.

* * *

Reports published about this plan indicated that it was the suggestion of one Appropriations Committee chairman. This is an error. The proposal represented a mature approach of Republican leaders to the White House. It was seen as a way of overcoming one of the least understood but most formidable hurdles to government economy.

* * *

This hurdle is nothing more glamorous than the dull but formidable fact that members of the Appropriations Committee simply do not get the facts upon which to make sound decisions as to the justifications for hundreds upon hundreds of unspectacular appropriations. These facts are the possession of government officials. When they go before the supply committees, these officials are not concerned with getting less money than they request. The prestige of these agency heads, the jobs of their thousands of employees, depend upon what appropriations they get.

* * *

Naturally these officials are out to sell their services. And they parade several a day through the Congressional appropriations hearings. The officials sell their stuff. Unless somebody, as occasionally happens, leaks out a bit of information, the Congressman has no way of telling where the sales talk fails to jibe with the facts. Furthermore, even though the appropriations hearings last for months, members of Congress cannot take the time to digest the vast volume of information, even one-sided information, spread out before them.

* * *

So when an Administration is so doggedly determined as the present one to spend every nickel, and itself has most of the solid factual background, economy has tough going. That the Republicans found this year. They had to stab in the dark. Conversely, they often went along with some items of expense. This was sheer helplessness—helplessness to get at the meat of each and every one of thousands of small items of expense. Hence the Republicans last year groped, like blind men.

* * *

Add to Congressional difficulties the fact that the whole Civil Service system has a facet which makes for bigness. In government, officials are paid by classifications. Classifications of pay vary according to "importance." But "importance" is usually measured by the number of employees an official supervises.

* * *

Two men, one competent, one just passable, can get almost the same pay in government. That is the Civil Service system. So what does an ambitious man in government do to get ahead? He tries to build himself a bureaucratic empire. He usually gets away with it, too. That is partly why in the great majority of cases, all Federal agencies are heavily overstaffed.

* * *

This is the thing the Republicans are trying to get—overstaffing which has been going on apace since 1933. Big things hit the headlines — veterans' benefits, farm subsidies, subsidized housing, and the like. But the countless items of thousands of unspectacular appropriations — that is what the majority would like to get at. Republicans tried this year. Truman whipped them, as the whole vast bureaucracy stood as a man to defend its jobs.

* * *

So the approach of having staff members of the committees sit in on Budget Bureau appropriation hearings. This was presented to the highest Executive authorities. This was a way to achieve substantial economy. It was a way to remedy a horrible shortcoming of Congress. Staff members would have the judgment based on months of private hearings. They would know some of the "inside" of administration waste.

* * *

But President Truuman rejected the idea. He told James Webb, Director of the Budget, who took the rap for rejecting the plan, that the GOP proposal interfered with the independence of the Executive branch of government. He was on firm legal grounds. But Appropriations Committee staff members are not Republican Congressmen. They are technical employees who don't often change with changes in party control of Congress.

* * *

Interior Secretary Krug gave the tip-off here last week that the Administration will try to duck industrial controls under foreign aid. In connection with his national resources report, he observed casually that he thought government-industry cooperation would do the job without controls—other than the existing export controls. In other words, the Administration plans to avoid asking for legislation reviving wartime controls over the use and allocation of materials.

* * *

Government-industry "cooperation" means a great deal of industrial conspiracy to assist the foreign aid program. However, this conspiracy will not be prosecuted. Tom Clark, the Attorney General, instead will bless it.

* * *

It's getting to be said around here that Tom Clark is proving to be a mighty handy man to President Truman. The butcher, the baker, the candlestick maker, and anybody else can cooperate for certain broad objectives. They can conspire to cut the size of loaves of bread. All the whiskey manufacturers can conspire to close down and restrict the production of their product. It is only a coincidence, of course, that conspiracies of this sort happen to accord with the high objectives of one government quarter.

* * *

Now if you believe wheat is a good buy and you decide to ride up with it, that is a different matter. You can see a conspiracy there even when one does not exist. Secretary Anderson has another to his credit for frankness. The other day he said candidly that the "waste less" campaign was primarily designed to build up support for lighter feeding of livestock. Just a little while after Mr. Truman announced that the Attorney General was going to check into grain speculation, the Agriculture Secretary said that there was no evidence of any violations of law.

* * *

Commodity Exchange Authority daily supervises the operations of the organized futures exchanges in farm products. If it had found a trace of manipulation causing high prices, it would have moved quickly. It found no manipulation. The rising price is due to all those factors, including buying for foreign aid, which convince a lot of people that grain is worth a high price. CEA was interested in the one-third margins. It got them. During the first several days this shook out a lot of trading. It may even have discouraged the bus boy and the elevator operator or any one else who might prove to be a weak sister in case the market should slide. CEA was not playing the Truman-Clark tune of scaring prices down. It was thinking far ahead to the time when prices, turning down, might collapse under the liquidation of many weak accounts.

* * *

Secretary Krug also threw cold water on the CIO line of enforced steel capacity expansion. He observed that it takes 0.7 pound of steel to produce 1 pound of steel-making capacity. This, he said, is not the time to expand the steel-making capacity of the country.

* * *

Other "Krugisms": When the trans-Arabian pipeline is built, maybe two years from now, this will take "much of the European load off our (supplying) shoulders." And—then the United States probably will be using Arabian oil in East Coast refineries. Also, fuel oil supplies probably will be OK this winter only if "everything goes all right." If not, the situation will get tough in the Middle West, with the East "not far behind."

* * *

There is more than meets the eye behind the stories that President Truman gave consideration to the idea of refraining to call a special session of Congress. What is behind it is that the government simply will not be ready, as it now looks, to face Congress down on a foreign aid program by December. It lacks important information. It is not ready to make firm judgments. However, even though unprepared on the long-range program, the Administration was impressed with the urgency of stop-gap aid.

* * *

Of course, the Administration is obliged to go before the foreign affairs committees of Congress in November to make a preliminary presentation on foreign aid. The White House stuck its neck out and asked these committees to get together next month. So that can't be avoided. But facing the entire Congress on the foreign aid program when so little fundamental information is known about that program, is another thing.

* * *

All the other arguments against the special session idea still prevail. Thus, the Administration knows the earlier it faces Congress the sooner it will have to start the long political tug-of-war which is the prelude to next fall's national election.

* * *

Two steps remain to confirm the tentative decision of the Harriman committee to drop any idea of a 4-year plan for European rehabilitation. One step is the formal approval by the full committee of this tentative decision. The other step is big. It is the approval of the White House. The committee will recommend, instead: 1-year appropriations, plus 1-year contract authorizations in limited amounts.

BUSINESS BUZZ

"I guess Smythe is hinting again that he needs an assistant."